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KEDI ECONOMIC SURVEY

February 1, 1988

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SOURCES:

U.S.Department of Commerce first estimate of 1987:4, National Income and Product data, January 20, 1988.

Board of Governors of the Federal Reserve System release of the Index of Industrial Production, January 1988.

The latest available data on prices, employment, industrial and financial developments.

0.00 INTRODUCTION

0.01 EXECUTIVE SUMMARY

HIGHLIGHTS

Real Growth

Predictions of economic doomsayers are countered by indicators of future development for at least half of this year.

Prices

Forecast data show moderate increase in consumer prices in 1988. No significant impact on prices of imported goods.

Employment & Labor

KEDI forecast shows that the unemployment rate will hover around 5.8% throughout most of the year.

Housing

In December 1987, housing starts fell to a seasonally adjusted rate of 1.374 mil. units, a 16.2% drop from November.

Automobiles

KEDI maintains its forecast that the automobile cycle has reached its trough and will start winding up in 1988:2.

Budgets

Forecast data on federal budget deficits this year and in 1989 are optimistic with gradual and continuing declines.

Income

Forecast data for personal income and personal disposable inome in 1988 are optimistic.

Money & Credit

It is anticipated that Federal Reserve will pursue the policy of slowing down the growth of money supply.

Interest Rates, Yields & Securities Prices

Recent developments confirm KEDI's prediction of gradually declining interest rates in 1988.

0.02 ASSUMPTIONS

		Last Update
1.	In 1988, the weighted price of oil will increase slightly as compared to 1987. It will continue increasing in the 1989-1990 period.	April 1986
2.	A longer-lasting relaxation in monetary and credit policies will last throughout 1988. More tightening is not expected earlier than in 1989.	November 1987
3.	In 1988 and 1989 good crops in all main producing countries are anticipated.	November 1987
4.	Foreign trade with China will expand in 1988 and following years.	May 1987
5.	Average rates of growth in 1985-1990 in major industrial countries are anticipated: West Germany 3.0%; Italy 2.1% reat Britain 2.1%; France 2.0%; Japan 3.1%; Canada 2.6%	September 1987
6.	No drastic changes in international relationships are anticipated.	Permanent Assumption

0.03 FORECAST HIGHLIGHTS

- Table 0.00 on page 3 shows forecast data of selected indicators of the January 1988 KEDI forecast.
- In 1988 solid growth is expected. It will slow down a bit in the first half of 1989.
- The upward trend will continue throughout 1990-1991.
- Forecast data for 1988-1991 do not point to recession or major downturn.
- In 1988 interest rates will remain, in average, at low levels throughout most of the year. Some increases are anticipated in 1989.
- Federal budget deficits will keep declining in 1988 and the following years.
- The 1987 export-import gap will start closing to a more acceptable level.

TABLE 0.00

KEDI FORECAST HIGHLIGHTS

Data for 1987, 1988 and 1989 are on pages indicated below.

Indicator	Unit	1986	1990	1991	1992
Gross national	bil. 82$	3713.3	4130.0	4233.3	4343.4
product, p. 5	% change	2.9	2.9	2.5	2.6
Index of indust.	1977=100	125.1	142.2	146.9	151.9
prod., p. 5	% change	1.0	3.2	3.3	3.4
Capacity	%	79.6	82.9	82.0	81.3
utiliz., p. 5	% change	-1.0	.3	-1.0	-.9
Unemployment	%	7.0	5.9	6.5	6.4
rate, p. 5	% change	-3.1	.7	-1.2	-1.1
Private housing	mil.units	1.8	1.9	1.8	1.9
starts, p. 5	% change	-4.2	4.8	-2.0	3.5
Car sales,	mil.units	11.5	10.8	10.9	11.4
p. 5	% change	3.2	3.5	1.1	4.0
Implicit GNP	1982=100	114.5	132.3	137.1	142.2
price def.,p.11	% change	2.6	3.3	3.6	3.7
Consumer Price	1967=100	328.4	383.3	395.6	409.8
Index, p. 11	% change	1.9	3.9	3.2	3.6
Prod.Price Index	1967=100	289.6	345.2	360.8	374.5
(fin.goods),p.11	% change	-1.6	4.5	4.5	3.8
Federal Deficit	bil. $	-220.0	-96.4	-78.0	-62.6
p. 21	% change	8.2	-11.7	-19.1	-19.7
Personal Income	bil. $	3534.3	4657.3	4978.6	5357.0
p. 23	% change	5.8	7.8	6.9	7.6
Prime Rate	%	8.3	8.2	8.8	9.5
p. 27	% change	-11.6	-4.8	7.2	7.8
Mortgage Rate	%	9.8	9.6	9.3	9.5
p. 27	% change	-11.7	-6.0	-2.7	1.8
Currency+demand	bil. $	673.2	863.9	915.7	978.0
deposits , p. 25	% change	13.4	6.2	6.0	6.8
Commercial+ind.	bil. $	517.6	587.8	547.3	3541.6
loans, p. 25	% change	5.3	3.1	2.9	2.1
Raw steel	mil.sh.tons	87.4	91.2	90.8	91.3
production	% change	-.1	.5	-.8	.4
Electric power	mil.kw-hr	2614	3355.8	3342.8	3499.6
production	% change	6.0	3.6	3.7	4.7
Bituminous coal	mil.sh.tons	872	936	973.3	984.1
production	% change	-.1	1.1	1.3	1.5
Crude oil	avg. daily bbl.	3261	2361	2371.7	2426.2
output	% change	.8	2.1	2.2	2.3
Retail sales	bil. $	1454.4	1866.5	1993.4	2132.9
p. 7	% change	6.0	7.1	6.8	7.0

Numbers in "% change" rows show percent changes over the previous year.

1.10 REAL GROWTH, CONSUMER SPENDING, AND RETAIL SALES

1.11 REAL GROWTH

See Table 1.11
Page 5

PREDICTIONS OF ECONOMIC DOOMSAYERS ARE COUNTERED BY THE FOLLOWING FACTS THAT INDICATE FUTURE DEVELOPMENTS FOR AT LEAST HALF-A-YEAR AHEAD:

* Factory orders in December 1987 rose by 2.5% to $214.77 bil. (seas. adj.) from $209.63 bil. in November.

* Unfilled orders in December 1987 increased to $404.1 bil. (seas. adj.), from $401.03 bil. in November.

* Preliminary data for most of January 1988 show that U. S. domestic car sales will jump at least 20%, contradicting the dive predictions of doomsayers that followed the October 1987 stock market plunge.

* The University of Michigan widely followed Index of Consumer Sentiments has been rising continuously since November 1987 showing significant gains in consumers' confidence in the economy.

* Value of new construction contracts in December 1987 increased 4% from November, and all signs point to a faily good level or orders in 1988.

* Export orders continue increasing, especially for machinery, equipment, paper, chemicals and many other products.

* Recently conducted surveys by the U.S. Dept. of Commerce, and private firms, notably Dun & Bradstreet have shown that businesses stick with their capital outlays plans for this year. These are positive indicators that speak out clearly--no wory about recession.

1988
FORECAST
DATA

Percent Change
from
January 1988
Forecast

+ .04%	Index Indus. Prod.
0.00%	Autos
- .03%	Capac. Util.
- .34%	Unemployment
- .51%	GNP
- 5.49%	Private Housing Starts

TABLE 1.11
SELECTED INDICATORS I.

Quarterly data are seasonally adjusted at annual rates.

INDICATOR	GNP	Index of ind. prod.	Unemployment	Capacity util'n rate**	Private housing starts	Auto sales
Unit	$82 bil.	1977=100	%	%	mil.	mil.
Year & Qtr.						
1986*	3713.3	125.1	7.04	79.6	1.805	11.5
1987:1*	3772.2	126.9	6.67	80.0	1.822	9.6
2*	3795.3	128.2	6.23	80.5	1.612	9.5
3*	3835.9	130.8	5.97	81.4	1.544	10.1
4	3875.1	133.0	5.91	82.2	1.423	10.1
YEAR	3819.6	129.7	6.20	79.6	1.600	9.8
% change from '86	2.9	3.7	-12.0	0.0	-11.3	-14.6
1988:1	3881.1	133.6	5.89	82.5	1.480	9.9
2	3898.2	134.2	5.90	82.7	1.610	10.0
3	3922.6	136.3	5.85	83.0	1.680	11.1
4	3956.8	136.5	5.80	83.3	1.657	10.6
YEAR	3914.7	135.2	5.86	82.9	1.607	10.4
% change from '87	2.5	4.2	-5.4	4.1	.4	5.9
1989:1	3984.6	136.6	5.84	83.3	1.639	10.0
2	3996.5	137.1	5.86	83.2	1.788	10.4
3	4024.2	138.4	5.90	83.0	1.863	10.9
4	4049.3	139.0	5.88	81.0	1.792	10.5
YEAR	4013.7	137.8	5.87	82.6	1.770	10.4
% change from '88	2.5	1.9	.2	-.3	10.2	.5

*Historical data.
**New, revised series

1.12 CONSUMER SPENDING AND RETAIL SALES

See Table 1.12 - page 7

1988
FORECAST
DATA

Percent Change
from
January 1988
Forecast

- .60%	Pers. Con. Exp. Durables
- .84%	Pers. Con. Exp. Nondurable
- .90%	Retail Sales Durables
- .97%	Pers. Con. Exp. Services
- 1.98%	Retail Sales Total
- 2.65%	Retail Sales Nondurable

PRELIMINARY DATA FOR JANUARY DO NOT INDICATE ANY SIGNS OF A "CONSUMER RECESSION" THAT SOME OVER-WORRIED ECONOMISTS AND DOOMSAYERS HAD BEEN PREDICTING FOR 1988:

Retail sales in December 1987 rose by 1.2% in December over November, and data for 3 weeks in January 1988 point to approximately .5 - .8% increase over December.

There are no indications that consumer spending will retrench. Main factors that will contribute to a fairly good level of consumer spending are the following:

* Expected 2 million new jobs in 1988 will boost personal income, which means higher spending.

* Lower tax rates on personal income tax mean more income available for spending.

* Forecast data for 1988 consumer credit indicate that consumers will continue using loans for purchases at approximately the same rates as they did in 1987.

* Expected declines in mortgage rates this year mean more incentives for consumers to spend on new houses.

* Forecast data of consumer inflation indicate that personal disposable income will grow faster than prices of consumer goods and services. Hence, no fear that higher prices will deter consumers from buying.

TABLE 1.12

CONSUMER SPENDING AND RETAIL SALES

Quarterly data are seasonally adjusted at annual rates.

	--Personal Cons. Expend.-			*------Retail Sales-------*		
INDICATOR	Durables	Nondurables	Services	Total	Durables	Nondurables
Unit	bil.$	bil.$	bil.$	bil.$	bil.$	bil.$
Year & Qtr.						
1986*	402.4	939.4	1458.0	1454.4	568.1	888.3
1987:1*	396.1	969.9	1527.7	1483.2	563.5	926.8
2*	409.0	982.1	1552.6	1515.6	567.1	948.5
3*	436.8	986.4	1588.1	1559.4	581.9	977.5
4	413.8	979.4	1618.0	1502.6	570.9	931.7
YEAR	413.9	979.5	1571.6	1515.2	570.9	946.1
% change from '86	2.9	4.3	7.8	4.2	.5	6.5
1988:1	427.1	1002.1	1709.0	1535.0	581.2	953.8
2	431.4	1023.1	1734.4	1602.4	610.5	991.9
3	446.9	1039.0	1725.6	1637.3	640.2	997.1
4	451.2	1056.2	1748.3	1650.5	646.1	1004.4
YEAR	439.1	1030.1	1729.3	1606.3	619.5	986.8
% change from '87	6.1	5.2	10.0	6.0	8.5	4.3
1989:1	454.2	1068.8	1793.9	1684.4	616.6	1067.8
2	458.4	1083.9	1823.9	1701.0	632.7	1068.3
3	464.8	1095.7	1964.6	1750.4	658.2	1092.2
4	468.5	1108.2	2008.4	1773.1	687.3	1085.8
YEAR	461.5	1089.2	1897.7	1727.2	648.7	1078.5
% change from '88	5.1	5.7	9.7	7.5	4.7	9.3

1.13 REAL GNP

See Table 1.13
Page 9

RECENT DATA FOR 1987:4 INDICATE A POSITIVE TREND WITH SOME DECLINES IN THE EXPORT-IMPORT GAP COMPARED TO PRECEDING QUARTERS OF 1987.

Data on GNP for 1987:4, recently released by U.S. Dept. of Commerce, have shown a significant rate of growth of the economy in that quarter--4.2%

Much attention has been paid to data on increase in inventories that accounted for most of the growth, and to consumer spending showing a poor performance. As it pertains to the increase in inventories, some ecnomists assert that such a large increase in inventories points to a slowdown of the economy in coming months. KEDI is not as pessimistic. Much of the 1987:4 inventory buildup has been among retailers and wholesalers, and NOT among manufacturers which means that there has not been pressure on factories to cut production, and the big inventory buildup in trade still manageable.

Data on sluggish consumer spending are not too persuasive, and all indications point to a significant upwards revision in the second release of the GNP data expected around February 25th. Consumer spending accounts for approximately two thirds of GNP, and data on retail sales for November and December 1987 have been significantly revised upwards. So, the second revision of GNP data for 1987:4 will show a better performance of consumers than reported in the January release.

1988 FORECAST DATA

Percent Change from January 1988 Forecast

+ 2.19%	Federal Govt. Purch.
+ 1.42%	Gross Private Dom. Inv.
- .51%	GNP
- .86%	Net Exports
- .93%	Pers. Cons. Expend.
- 4.02%	State Local Purch.

TABLE 1.13
REAL GNP

Quarterly data are seasonally adjusted at annual rates.

INDICATOR	*-----------Gross National Product----------------*					
	Total	Pers. cons. expend.	Gross pvt.dom. investm.	Net exports	Fed. govt. purch.	State local purch.
Unit	$82 bil.	$82 bil.	$82 bil.	$82 bil.	$82 bil.	$82 bil.
Year & Qtr.						
1986*	3713.3	2450.5	654.0	-145.8	332.5	422.1
1987:1*	3772.2	2475.9	671.8	-135.2	327.3	432.3
2*	3795.3	2487.5	673.7	-132.7	332.6	434.4
3*	3835.9	2520.7	681.9	-138.4	336.3	435.4
4	3875.1	2496.6	714.2	-130.7	354.5	404.5
YEAR	3819.6	2495.2	685.4	-134.2	337.7	426.6
% change from '86	2.9	1.8	4.8	-7.9	1.6	1.1
1988:1	3881.1	2568.2	679.6	-127.6	346.2	414.7
2	3898.2	2566.7	684.3	-124.7	348.3	423.6
3	3922.6	2569.6	689.7	-118.5	351.7	430.1
4	3956.8	2583.4	694.5	-112.2	354.6	436.5
YEAR	3914.7	2572.0	687.0	-120.8	350.2	426.2
% change from '87	2.5	3.1	.2	-10.1	3.7	-.1
1989:1	3984.6	2598.4	698.4	-110.5	358.2	440.1
2	3996.5	2601.5	703.1	-111.6	359.6	443.9
3	4024.2	2614.6	708.4	-108.4	363.4	446.2
4	4049.3	2627.5	712.5	-105.6	365.2	449.7
YEAR	4013.7	3081.1	705.6	-109.0	361.6	445.0
% change from '88	2.5	19.8	2.7	-9.7	3.3	4.4

*Historical data.

1.20 PRICES AND NOMINAL GNP

1.21 PRICES

See Tables 1.21 - page 11

1988
FORECAST
DATA

Percent Change
from
January 1988
Forecast

- .03%	Pers. Cons. Expend.
- .04%	Consumer Price Index
- .06%	Producer Price Index
- .27%	GNP
- .38%	State Local Purch.
- 1.06%	Federal Govt. Purch.

THE CONSUMER PRICE INDEX IN DECEMBER 1987 ADVANCED BY ONLY .1% FROM NOVEMBER. FORECAST DATA SHOW MODERATE INCREASE IN CONSUMER PRICES IN 1988. NO SIGNIFICANT IMPACT OF PRICES OF IMPORTED CONSUMER GOODS IS PREDICTED.

Recent increases in prices of some commodities such as soybeans, and other grain, iron and copper ore, primary metals, such as steel, copper, aluminum and others, do not point to rekindling of inflation:

* In average, commodity prices are still about 30% below 1980 levels.

* Since September 1987, the Producer Price Index for Finished Goods has been declining steadily--in December 1987 by .3%, for example.

* There are no indications that prices of crude materials will be increasing significantly in months ahead.

* Prices of energy are forecasted to remain stable. Hence, there is no indication that the economy is shooting up to higher inflation.

TABLE 1.21
PRICES

Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

INDICATOR	*---Indexes--*		*-------Price deflators--------*			
	Cons. price index n.s.a.**	Prod. price index n.s.a.**	Gross Nat'l Prod.	Pers. cons. expend.	Fed. govt. purch.	State local purch.
Unit	1967= 100	1967= 100	1982= 100	1982= 100	1982= 100	1982= 100
Year & Qtr.						
1986*	328.4	289.7	114.1	114.3	110.2	119.3
1987:1*	334.8	292.1	116.1	116.9	112.1	122.4
2*	338.8	296.0	117.1	118.3	114.1	123.9
3*	342.2	298.1	117.9	119.5	113.6	125.6
4	345.6	301.2	118.7	120.6	111.1	138.2
YEAR	340.4	296.9	117.5	118.8	112.7	127.5
% change from '86	3.6	2.5	2.9	3.9	2.3	6.9
1988:1	348.7	305.4	120.1	122.2	113.6	127.2
2	352.0	310.7	121.6	124.2	115.7	128.3
3	355.2	315.0	122.5	125.0	117.9	131.1
4	358.8	318.9	123.3	126.0	119.4	132.6
YEAR	353.7	312.5	121.9	124.4	116.7	129.8
% change from '87	3.9	5.3	3.8	4.7	3.5	1.8
1989:1	362.6	323.0	124.6	127.7	121.3	133.0
2	366.3	328.5	126.0	129.4	122.5	135.0
3	370.4	332.9	130.1	134.8	124.0	137.1
4	376.5	337.0	131.7	136.4	125.9	139.2
YEAR	368.9	330.4	128.1	132.1	123.4	136.1
% change from '88	4.3	5.7	5.1	6.2	5.8	4.8

---

*Historical data.

**CPI: All Urban Consumers; PPI: Finished Goods.

1.22 NOMINAL GNP

See Table 1.22 - page 13

1988
FORECAST
DATA

Percent Change
from
January 1988
Forecast

+ 1.13%	Federal Govt. Purch.
+ .47%	Gross Private Dom. Inv.
- .40%	Net Exports
- .81%	GNP
- .88%	Pers. Cons. Expend.
- 4.40%	State Local Purch.

THE BRIGHTEST SIDE OF THE FIRST ESTIMATE OF GNP AND COMPONENTS RELEASED JANUARY 20 BY THE U.S. DEPT. OF COMMERCE ARE DATA ON EXPORTS AND IMPORTS, SHOWING A DECLINE IN THE EXPORT-IMPORT GAP.

They are supported by the December 1987 statistics that shows a narrower trade deficit of $12.2 bil. from the $13.2 bil. in November.

Two important features have to be underlined:

* The trade deficits with Japan, Canada, Western Europe, and OPEC countries are beginning to shrink. Expectations are that trade with the newly industrialized counties of Asia--Korea, Taiwan, Hong Kong and Singapore--accounted for 22% of the U.S. overall balance of trade deficit in 1987. This is starting to shrink in recent months.

* Imports are stabilizing, while expoprts are increasing, and, importantly, imports of consumer goods are slowing down, notably toys and games, radios and televisions, wine, some textiles and apparel, and food.

TABLE 1.22
NOMINAL GNP

Quarterly data are seasonally adjusted at annual rates.

INDICATOR	*-----------Gross National Product----------------*					
	Total	Pers. cons. expend.	Gross pvt. dom invest.	Net exports	Fed. govt. purch.	State local purch.
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	bil. $
Year & Qtr.						
1986*	4235.0	2799.8	671.0	-105.5	366.2	503.5
1987:1*	4377.7	2893.8	699.7	-112.2	366.9	529.3
2*	4445.1	2943.7	702.6	-118.4	379.6	537.6
3*	4524.0	3011.3	707.4	-123.7	382.1	546.9
4	4598.0	3011.2	755.5	-121.5	393.7	559.1
YEAR	4486.1	2978.7	716.3	-119.0	380.6	543.2
% change from '86	5.9	6.4	6.8	12.7	3.9	7.9
1988:1	4661.2	3138.2	720.2	-118.0	393.3	527.5
2	4740.2	3188.9	721.9	-117.1	403.0	543.5
3	4805.2	3211.5	724.8	-109.6	414.7	563.9
4	4878.7	3255.7	729.9	-109.1	423.4	578.8
YEAR	4771.3	3198.6	724.2	-113.4	408.6	553.4
% change from '87	6.4	7.4	1.1	-4.6	7.4	1.9
1989:1	4964.8	3316.9	736.4	-108.3	434.5	585.3
2	5035.6	3366.2	740.4	-110.8	440.5	599.3
3	5235.5	3525.1	746.8	-98.8	450.6	611.7
4	5332.9	3585.1	754.3	-92.2	459.8	626.0
YEAR	5141.5	3463.1	744.5	-102.5	446.4	605.6
% change from '88	7.8	8.3	2.8	-9.6	9.2	9.4

*Historical data.

1.30 EMPLOYMENT AND LABOR

See Table 1.30 - page 15

1988
FORECAST
DATA

Percent Change
from
January 1988
Forecast

+ .02%	Population
0.00%	Agriculture
- .34%	Unemployment rate
- 1.44%	Civilian Labor Force
- 1.45%	Total Employed
- 1.50%	Non-Agri.

THE JANUARY 1987 UNEMPLOYMENT RATE IS EXPECTED TO STAY AT THE DECEMBER 1987 LEVEL OF 5.8%. KEDI FORECAST SHOWS THAT THE RATE WILL HOVER AROUND 5.8% THROUGHOUT MOST OF THE YEAR WITH SOME SMALL DECLINES IN THE SECOND HALF.

That translates into approximately two million new jobs expected to be created this year. Main increases in employment are expected in most segments of the service sector, and slow by persistent increments in manufacturing, especially in machinery, fabricated metal products, chemistry and plastics, and paper and products. Employment in construction will improve only marginally, while the mining sector will remain essentially flat.

TABLE 1.30
EMPLOYMENT & LABOR

Quarterly data are seasonally adjusted at annual rates.

			-------Employment-------			
INDICATOR	Population	Civil. labor force	Total	Agricult.	Non-agric.	Unemployment rate
Unit	mil.	mil.	mil.	mil.	mil.	%
Year & Qtr.						
1986*	241.5	117.8	109.6	3.2	106.4	7.04
1987:1*	242.9	119.2	111.2	3.2	108.1	6.67
2*	243.8	119.6	112.1	3.2	108.9	6.23
3	245.0	120.1	113.2	3.2	110.0	5.97
4	246.9	120.8	113.7	3.2	110.5	5.91
YEAR	244.7	119.9	112.8	3.2	109.6	6.20
% change from '86	1.3	1.8	1.7	0.0	3.1	-12.00
1988:1	247.9	121.4	114.2	3.2	111.0	5.89
2	249.6	125.0	117.6	3.2	114.4	5.90
3	250.4	122.8	115.6	3.2	112.4	5.85
4	251.5	123.6	116.4	3.2	113.2	5.80
YEAR	249.8	123.2	116.0	3.1	112.9	5.86
% change from '87	2.1	2.7	2.9	-3.1	2.9	-5.41
1989:1	253.9	124.2	116.9	3.2	113.7	5.84
2	254.3	125.0	117.7	3.1	114.6	5.86
3	255.1	125.8	118.4	3.1	115.3	5.90
4	256.0	126.5	119.1	3.1	116.0	5.88
YEAR	254.8	125.4	118.0	3.1	114.9	5.87
% change from '88	2.0	1.8	1.8	0.0	1.8	.17

*Historical data.

1.41 HOUSING

See Table 1.41 - Page 17

IN DECEMBER 1987, HOUSING STARTS FELL TO A SEASONALLY ADJUSTED RATE OF 1.374 MILLION UNITS FROM 1.639 MILLION UNITS IN NOVEMBER, A 16.2% DROP. TOTAL 1987 STARTS FELL 10.4% TO THE LOWEST LEVEL SINCE 1982.

KEDI forecast for 1988 shows that the housing cycle has reached the trough, and the rebound is expected to start soon--recovery is expected to start in the second quarter of this year lead by increases in single-family buildings while apartment buildings will lag throughout the entire year.

In general, housing is expected to be a bit better off this year than in 1987. A significant stimulus for 1988 housing is expected from mortgage rates.

Forecast data show that rates on 30 year mortgages will decline to 9.5% in the second quarter of this year and will continue the downward trend afterward.

1988
FORECAST
DATA

Percent Change
from
January 1988
Forecast

+ .61%	Mobile Home Shipments
+ .11%	1-Family Unit price New
- .34%	1-Family Unit price Existing
- 1.52%	Single Family Housing Starts
- 2.03%	Permits Issued
-17.57%	Multiple Family Housing Starts

TABLE 1.41
HOUSING

Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

INDICATOR Unit	Single family housing starts mil.	Multi-family housing starts mil.	Mobile home ship-ments mil.	Permits author-ized mil.	1-Fam. unit price new** tho. $	1-Fam. unit price exist** tho. $
Year & Qtr.						
1986*	1.179	.628	.244	1.750	112.6	98.3
1987:1*	1.256	.539	.234	1.684	121.1	103.9
2*	1.136	.476	.232	1.547	125.9	105.8
3	1.119	.425	.230	1.501	131.0	108.0
4	1.043	.380	.247	1.402	135.5	112.0
YEAR	1.139	.455	.236	1.533	128.4	107.4
% change from '86	-3.4	-27.5	-3.4	-12.4	14.0	9.3
1988:1	1.090	.390	.227	1.508	138.1	113.1
2	1.202	.408	.245	1.566	140.2	115.2
3	1.226	.454	.258	1.607	143.6	118.7
4	1.201	.456	.252	1.593	145.1	122.2
YEAR	1.180	.427	.245	1.569	141.8	117.3
% change from '87	3.6	-6.2	4.1	2.3	10.4	9.2
1989:1	1.138	.501	.232	1.489	146.1	123.0
2	1.220	.568	.240	1.650	148.6	124.2
3	1.274	.589	.282	1.764	150.4	127.0
4	1.218	.574	.277	1.969	153.0	131.4
YEAR	1.212	.558	.258	1.718	149.5	126.4
% change from '88	2.8	30.7	5.0	9.5	5.5	7.8

*Historical data.
**Average. Not seasonally adjusted.

1.42 AUTOMOBILES

See Table 1.42 - page 19

KEDI MAINTAINS ITS FORECAST THAT THE AUTOMOBILE CYCLE HAS REACHED ITS TROUGH AND WILL START WINDING UP IN THE SECOND QUARTER OF THIS YEAR.

Data on car sales for November and December 1987 and early data for most of January 1988 show convincingly that the October 1987 stock market decline has proven to be a "noevent" in terms of auto sales.

KEDI forecast calls for continuing improvements in sales of U.S. produced and imported cars, with sales of domestic cars increasing faster than imports, and strong market for light-duy trucks, vans, recreational vehicles, and Jeep-like utility vehicles throughout the entire year.

The production cuts by U.S. automakers for the first quarter of this year are seen as temporary.

1988
FORECAST
DATA

Percent Change
from
January 1988
Forecast

+ 1.03%	Domestic Car Sales
+ .97%	Total Car Sales
+ .83%	Imported Car Sales
+ .68%	Total Light Truck Sales
+ .32%	Shipments
0.00&	Dealer Inventory

TABLE 1.42
AUTOMOBILES
Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

INDICATOR	Total car sales	Car sales dom.	Car sales imp.	Dealer car inventory n.s.a. **	Factory car shipments	Total light truck sales
Unit	mil.	mil.	mil.	mil.	mil.	mil.
Year & Qtr.						
1986*	11.5	8.2	3.2	1.5	7.5	3.7
1987:1*	9.6	7.0	2.6	1.9	7.7	3.4
2*	9.5	6.8	2.7	1.9	7.5	3.5
3	10.1	7.0	3.1	1.8	7.7	3.8
4	10.1	6.9	3.0	1.8	7.2	3.9
YEAR	9.8	6.9	2.9	1.8	7.5	3.6
% change from '86	-14.6	-15.5	-10.9	20.0	.3	-1.4
1988:1	9.9	7.0	2.9	1.7	7.6	3.5
2	10.0	7.1	2.9	1.7	7.6	3.8
3	11.1	7.9	3.2	1.7	8.0	3.9
4	10.6	7.5	3.1	1.6	7.7	3.7
YEAR	10.4	7.4	3.0	1.6	7.7	3.7
% change from '87	5.9	-.3	6.1	-11.1	2.7	2.1
1989:1	10.0	7.0	3.0	1.7	7.3	3.2
2	10.4	7.4	3.0	1.8	7.5	3.5
3	10.9	7.8	3.1	1.7	7.8	3.7
4	10.5	7.4	3.1	1.6	7.7	3.5
YEAR	10.4	7.4	3.0	1.6	7.6	3.5
% change from '88	.5	-.3	.8	0.0	-1.9	-6.7

*Historical data.
**End of period data.

1.50 BUDGETS

See Table 1.50 - page 21

1988
FORECAST
DATA

Percent Change
from
January 1988
Forecast

+ .41%	Federal Surplus/ Deficit
- .04%	Federal Income Tax
- .13%	Corporate Profit Tax us/ Accrued
- .14%	State Income Tax
- .42%	State Local Corp. Tax Accrued
- .67%	Statet Surplus/ Deficit

FORECAST DATA ON FEDERAL BUDGET DEFICITS THIS YEAR AND THE 1989 ARE OPTIMISTIC. GRADUAL AND CONTINUING DECLINES ARE PREDICTED, THOUGH NOT AS FAST AS THEY DECLINED IN 1987. (See Table 1.5 on the following page.)

Forecast data on Federal Personal Income taxes point to a 7.2% growth this year and 6.3% in 1989, due to the expected increases in the number of taxpayers and their income. Correspondingly, positive growth rates of personal income tax payments are seen in forecast data for state and local governments.

Fast increases in corporate tax payments in both forecast years reflect the expected healthy growth in corporate profits, changes in Federal corporate taxes that took effect January 1, this year, and anticipated new and higher taxation of corporations by state and local governments.

TABLE 1.50
FEDERAL, STATE AND LOCAL BUDGETS
Quarterly data are seasonally adjusted at annual rates.

INDICATOR	FEDERAL Income taxes	FEDERAL Corp. profits tax accru.	FEDERAL Surplus /deficit	STATE AND LOCAL Income taxes	STATE AND LOCAL Corp. profits tax accru.	STATE AND LOCAL Surplus /deficit
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	bil. $
Year & Qtr.						
1986*	363.0	83.7	-204.3	149.8	21.3	56.8
1987:1*	381.5	103.0	-170.5	154.6	25.0	41.0
2*	415.6	107.9	-139.2	162.3	26.4	50.6
3*	403.9	111.8	-143.1	161.8	26.6	51.0
4	415.8	113.8	-146.7	163.1	27.0	52.3
YEAR	404.2	109.1	-149.9	160.4	26.2	48.7
% change from '86	11.3	30.4	-26.6	7.1	23.2	-14.2
1988:1	423.8	114.6	-144.1	168.1	28.1	53.0
2	429.0	120.1	-138.1	170.1	29.2	54.7
3	436.5	121.0	-132.0	176.2	30.0	56.4
4	448.0	123.7	-128.4	181.0	31.8	58.0
YEAR	434.3	119.8	-135.7	173.8	29.8	55.5
% change from '87	7.5	9.8	-9.5	8.4	13.4	14.0
1989:1	452.1	125.0	-118.1	183.4	32.0	59.6
2	457.6	127.1	-110.2	185.3	33.3	60.1
3	466.9	129.9	-106.3	187.7	34.8	61.7
4	471.6	132.7	-102.2	192.0	36.1	62.4
YEAR	462.1	128.7	-109.2	187.1	34.0	61.0
% change from '88	6.4	7.4	-19.5	7.6	14.4	9.8

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*Historical data.

1.60 INCOME

See Table 1.60 - page 23

1988
FORECAST
DATA

Percent Change
from
January 1988
Forecast

+10.78%	Personal Savings
+ 1.57%	Average Weekly Earnings
- .05%	Comp. of Employees
- .93%	Personal Income
- 1.08%	Personal Disp. Income
- 1.72%	Corp. After Tax Earnings

FORECAST DATA FOR PERSONAL INCOME AND PERSONAL DISPOSABLE INCOME IN 1988 ARE OPTIMISTIC. THEY SHOW REGULAR INCREMENTS THROUGHOUT THE YEAR, AND, MORE IMPORTANTLY, A FASTER GROWTH OF THE PERSONAL DISPOSABLE INCOME THAN THE GROWTH OF PERSONAL INCOME.

Forecast of corporate profits is also positive. In 1988, Corporate after tax profits will increase significantly in most sectors and industries, notable the exporting segments and those who have large subsidiaries overseas.

In general, corporate after-tax profits are expected to grow by 10% this year over 1987 and by another 10% in 1989.

Data for Personal Saving show regular trend for both forecast years. As seen in Table 1.7 on the following page, the horrendous jump in personal saving in 1987:4 is considered a temporary aberration, mainly due to the underestimated personal consumption expenditures in this quarter. It is expected that the figure of personal savings in 1987:4 will be significantly reduced by the Department of Commerce February second estimate.

TABLE 1.60
INCOME

Quarterly data are seasonally adjusted at annual rates.

INDICATOR	Pers. income	Pers. disp. income	Comp. of empl.	Corp. after tax profits	Pers. saving	Avg. week earn.
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	$
Year & Qtr.						
1986*	3534.3	3022.1	2504.9	126.8	130.6	382.0
1987:1*	3662.0	3125.9	2589.9	129.0	138.4	391.2
2*	3708.6	3130.6	2623.8	134.5	93.2	403.1
3*	3761.0	3195.3	2660.1	141.9	88.8	406.6
4	3851.5	3272.6	2738.4	148.1	160.4	417.5
YEAR	3745.8	3181.1	2653.1	138.4	120.2	404.6
% change from '86	6.0	5.3	5.9	9.1	-8.0	5.9
1988:1	3925.0	3333.1	2780.0	154.1	102.5	419.8
2	3986.2	3387.1	2809.2	156.5	104.7	421.4
3	4030.2	3417.5	2893.0	158.4	111.6	420.8
4	4101.9	3472.9	2940.0	161.2	105.7	426.5
YEAR	4010.8	3402.7	2855.6	157.6	106.1	422.1
% change from '87	7.1	7.0	7.6	13.9	-11.7	4.3
1989:1	4181.4	3545.9	2982.6	168.4	107.6	430.2
2	4238.9	3596.0	2983.7	170.1	111.4	435.2
3	4408.8	3754.2	3054.1	182.6	118.5	437.2
4	4452.0	3788.4	3089.3	182.1	112.3	440.5
YEAR	4320.3	3671.2	3027.4	175.8	112.5	435.8
% change from '88	7.7	7.9	6.0	11.6	6.0	3.2

*Historical data.

1.70 MONEY AND CREDIT

See Table 17.0 - page 25

1988
FORECAST
DATA

Percent Change
from
January 1988
Forecast

+ .45%	Time Deposits
+ .33%	Large Denom. Time Deposits
+ .03%	Consumer Install Credit
- .13%	Comm. & Indust. Loans at Banks
- .32%	Mortg. at savings inst'ns
- .59%	Consumer & Demand Deposits

IT IS ANTICIPATED THAT FEDERAL RESERVE WILL PURSUE THE POLICY OF DECREASING INTEREST RATES THROUGHOUT THIS YEAR AND WILL TIGHTEN CREDIT IN 1989.

Monetary policy will not be as loose, however. KEDI expects that the growth of monetary aggregates, especially M1 will slowdown significantly this year and in 1989.

Slowing down of the growth of M1 is necessary to avoid inflationary developments this and the following years. In past years, money supply grew at percipitous rates--without rekindling inflation. Large amounts were channeled overseas through financing foreign trade deficits, and, to a large extent, to the stock market. Thus, the growth of money supply had not affected the domestic price levels of goods and services. That policy cannot continue further because there is already a DOLLAR GLUT in the World and further substantial injections of dollars overseas would necessarily end in declines in the international value of the dollar. Secondly, the policy of funelling money into the market worked well for some time, but not any more--it would only lead to another black Monday on Wall Street.

TABLE 1.70
MONEY & CREDIT

Data for "Currency and demand deposits, M1", and "Time deposits, adjusted, M2" are averages of daily figures; other data are end of period figures.

INDICATOR	Currency and demand deposits M1, s.a.	Time deposit adjust. M2, s.a.	Cons. instal. credit n.s.a. **	Comm.& indus. loans at banks s.a.	Large denom. time dep. s.a.	Mortg. at sav. inst'n. ** n.s.a.
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	bil. $
Year & Qtr.						
1986*	673.2	2650.8	577.8	517.6	447.1	2566.7
1987:1*	732.3	2821.7	579.9	520.4	449.3	2662.3
2*	750.5	2840.3	587.9	526.1	459.8	2754.5
3*	750.0	2865.2	602.2	532.3	466.9	2827.6
4	756.3	2897.7	610.8	540.4	488.8	2908.7
YEAR	747.3	2856.2	610.8	540.4	488.8	2908.7
% change from '86	11.0	7.7	5.7	5.3	9.3	13.3
1988:1	762.7	2868.4	616.0	544.8	492.9	2946.9
2	770.3	2933.5	622.5	546.8	496.3	2987.8
3	780.5	2999.6	630.8	550.3	501.7	3069.4
4	791.8	3058.6	641.9	558.0	509.8	3130.3
YEAR	776.3	2965.0	641.9	558.0	509.8	3130.3
% change from '87	3.9	3.8	5.1	3.3	4.3	7.6
1989:1	804.3	3117.4	650.2	562.3	506.7	3209.0
2	810.5	3162.0	660.8	563.3	513.4	3279.2
3	817.4	3217.4	680.2	565.2	517.9	3368.7
4	821.6	3278.1	691.0	570.1	531.9	3468.8
YEAR	813.5	3193.7	691.0	570.1	531.9	3468.8
% change from '88	4.8	7.7	7.6	2.2	4.3	10.8

*Historical data. n.s.a: not seasonally adjusted.
s.a.: seasonally adjusted at annual rates. **Revised series

1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES

See Table 1.80 - page 27

1988 FORECAST DATA

Percent Change from January 1988 Forecast

+ .90%	Aaa Corp. Bond Rate
- .21%	S & P's 500 Avg.
- .80%	Treas. Bills 3 mo. Yield
- 2.20%	Prime Rate
- 3.70%	Conv. Mortg. Rate
- 3.95%	20 Year Govt. Bond Yield

RECENT DEVELOPMENTS CONFIRM KEDI'S PREDICTION OF GRADUALLY DECLINING INTEREST RATES IN 1988:

Long-term Treasury bonds are yielding below 8.5% for the first time in more than six months; rates on 30-year fixed-rate mortgages have already fallen to 10% or below; and consumer interest rates are starting to go down.

The Fed eased the policy of firm interest rates immediately after the October 1987 stock market decline. Since then it kept a steady policy, possibly being fearful that any further easing would ignite inflationary pressures and/or encourage a further fall of the dollar.

However, there are no indications that inflation will accelerate above a tolerable level; the dollar has shown a stability in recent weeks, and gold prices have been declining since the start of the year. All that indicates that the lower interest rates will not pose such a threat as the Fed has worried about.

TABLE 1.80
INTEREST RATES, YIELDS & SECURITIES PRICES
Quarterly averages of monthly figures.

INDICATOR	Treas. bills 3 mo. yield	Prime rate	Conv. mortg rate	Aaa corp. bond rate	30 yr. Govt. bonds yield	S & P's 500 Avg 1941-43 = 10
Unit	%	%	%	%	%	
Year & Qtr.						
1986*	5.97	8.33	9.82	9.02	7.80	236.34
1987:1*	5.53	7.50	9.06	8.37	7.87	279.30
2*	5.66	8.05	8.98	9.17	8.53	293.27
3*	6.03	8.40	9.02	9.76	9.39	319.37
4	6.64	8.60	9.04	9.79	9.19	250.74
YEAR	5.96	8.14	9.03	9.27	8.74	285.67
% change from '86	-.1	-2.3	-8.1	2.8	12.1	20.9
1988:1	6.64	8.50	9.01	9.16	8.76	256.20
2	6.52	8.28	8.78	9.08	8.56	270.61
3	6.48	8.06	8.46	8.68	8.34	281.43
4	6.39	8.10	8.38	8.92	8.15	282.14
YEAR	6.51	8.23	8.66	8.96	8.45	272.60
% change from '87	9.1	1.2	-4.1	-3.4	-3.3	-4.6
1989:1	6.25	8.35	8.05	9.04	8.06	280.32
2	6.28	8.57	9.34	9.53	8.20	285.42
3	6.28	8.87	9.41	9.48	8.28	294.87
4	6.39	8.87	9.41	9.48	8.64	305.42
YEAR	6.30	8.66	9.05	9.38	8.29	291.51
% change from '88	-3.2	5.2	4.6	4.7	-1.9	6.9

*Historical data.

2.0 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, comparisons of accuracy of the Growth Rates of the U.S. economy has been selected. Actual numbers are in the Survey of Current Business, December 1987 issue, Table 1.2 (U.S. Department of Commerce, Washington, D.C., monthly), and in the January 20, 1988 release of the U.S. Department of Commerce on GNP for 1987:4. Forecast data are in Business Week, December 29, 1987/January 5, 1987 issue, p. 63.

TABLE 2.0

COMPARISONS OF ACCURACY OF PREDICTIONS
(Percent change of GNP in constant 1982$
from 1986:4 to 1987:4)
Actual figure: 4.8%

Forecaster	Date of Forecast	Forecast %	Accuracy (actual - forecast)
Univ. of Calif. at LA	12/86	3.9	.9
Fairmodel, Economia	12/86	3.8	1.0
RSQE, Univ. of Michigan	12/86	3.8	1.0
Kent Economic and Development Inst., Inc.	12/86	3.6	1.2
Wharton Econometrics	12/86	3.5	1.3
Data Resources	12/86	3.0	1.8
Evans Economics	12/86	2.5	2.3
Chase Econometrics	12/86	2.4	2.4
Lawrence H. Meyer & Assoc.	12/86	2.3	2.5
Merrill Lynch Economics	12/86	2.3	2.5
Georgia State Univ.	12/86	2.1	2.7

3.00 HISTORICAL DATA SOURCES

For reader's convenience listed below are sources of historical data series for the forecasts appearing in the Survey. The first column of the following table refers to the table in this Survey, the second column to the name of forecast series, and the third column identifies the source of historical data. The sources are: **Survey of Current Business** referred to as SCB (monthly, U. S. Department of Commerce, Washington, D.C.), **Federal Reserve Bulletin,** FRB, (Board of Governors of the Federal Reserve System, Washington, D.C. monthly), **Index of Industrial Production,** G.12.3 Release, IIP, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly.)

TABLE 3.00

HISTORICAL DATA SOURCES

Table Number	Data Series	Source
1.11 Selected Indicators of Real Growth I.	Gross national product, 1982 $	SCB, Table 1.2
	Index of industrial production	IIP, p. 2.
	Unemployment rate	SCB, Blue pages
	Capacity utilization rate	FRB, Table .11
	Private housing starts	SCB, Blue pages
	Car sales	SCB, Blue pages
1.12 Selected Indicators of Real Growth II.	Personal Cons. expend: Durables,	SCB, Table 1.1
	Nondurables	SCB, Table 1.1
	Services	SCB, Table 1.1
	Retail sales: Total	SCB, Blue pages
	Durables	SCB, Blue pages
	Nondurables	SCB, Blue pages
1.12 Real GNP	Gross national product, 1982 $	SCB, Table 1.2
	Personal consumpt. expenditures	SCB, Table 1.2
	Gross private dom. investment	SCB, Table 1.2
	Net exports	SCB, Table 1.2
	Federal purchases	SCB, Table 1.2
	State and local purchases	SCB, Table 1.2
1.21 Prices	Consumer price index	SCB, Blue pages
	Producer price index	SCB, Blue pages
	Implicit price deflators: GNP	SCB, Table 7.1
	Personal consumpt. expenditures	SCB, Table 7.1
	Federal purchases	SCB, Table 7.1
	State and local purchases	SCB, Table 7.1
1.22 Nominal GNP	Gross national product	SCB, Table 1.1
	Personal consumpt. expenditures	SCB, Table 1.1
	Gross private dom. investment	SCB, Table 1.1
	Net exports	SCB, Table 1.1
	Federal purchases	SCB, Table 1.1
	State and local purchases	SCB, Table 1.1

(Table 3.00 continues on the following page.)

TABLE 3.00

HISTORICAL DATA SOURCES (CONTINUED)

Table Number	Data Series	Source
1.30 Employment and Labor	Population	SCB, Blue pages
	Civilian labor force	SCB, Blue pages
	Employment	SCB, Blue pages
	Agriculture	SCB, Blue pages
	Non-agriculture	SCB, Blue pages
	Unemployment rate	SCB, Blue pages
1.41 Housing	Single-family housing starts	SCB, Blue pages
	Multifamily housing starts	SCB, Blue pages
	Mobile home shipments	SCB, Blue pages
	Permits authorized	SCB, Blue pages
	1-family unit price, new	FRB, Table 2.14
	1-family unit price, existing	FRB, Table 2.14
1.42 Autos	Passenger cars: Total sales	SCB, Blue pages
	Domestic	SCB, Blue pages
	Imported	SCB, Blue pages
	Dealers inventories	SCB, Blue pages
	Factory shipments	SCB, Blue pages
	Light-duty truck sales	SCB, Blue pages
1.50 Federal State & Local Budgets	Federal govt: Income taxes	SCB, Table 3.2
	Corporate profit tax accruals	SCB, Table 3.2
	Surplus/Deficit	SCB, Table 3.2
	State & local govt:Income taxes	SCG, Table 3.3
	Corporate profit tax accruals	SCG, Table 3.3
	Surplus/Deficit	SCB, Table 3.3
1.60 Income	Personal income	SCB, Table 2.1
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KEDI ECONOMIC SURVEY

March 1, 1988

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SOURCES:

U.S.Department of Commerce second estimate of 1987:4, National Income and Product data, February 20, 1988.

Board of Governors of the Federal Reserve System release of the Index of Industrial Production, February 1988.

The latest available data on prices, employment, industrial and financial developments.

0.00 INTRODUCTION

0.01 EXECUTIVE SUMMARY

HIGHLIGHTS

Real Growth

The resumption of high growth rate is expected in the second quarter of this year. The economy is looking good.

Prices

The new Producer Price Index for finished goods for January has shown a small .04% rise.

Employment & Labor

The employment outlook for 1988 and 1989 is optimistic. KEDI forecast calls for about 2.5 million new jobs this year.

Housing

All indications point to a rebound in housing--as KEDI has been predicting for a long time.

Automobiles

The outlook for car production and sales is optimistic. January data for production and sales are stronger.

Budgets

The $1.1 trillion federal budget for fiscal year 1989, starting October 1, will be enacted by Congress.

Income

In January personal income rose at seasonally adjusted annual rate of $3.879 trillion from December's $3.866 trillion.

Money & Credit

Forecast data for 1988 indicate moderate growth in monetary and credit aggregates.

Interest Rates, Yields & Securities Prices

KEDI does not share prospects of some economists who believe that interest rates will go up this year.

0.02 ASSUMPTIONS

		Last Update
1.	In 1988, the weighted price of oil will increase slightly as compared to 1987. It will continue increasing in the 1989-1990 period.	April 1986
2.	A longer-lasting relaxation in monetary and credit policies will last throughout 1988. More tightening is not expected earlier than in 1989.	February 1988
3.	In 1988 and 1989 good crops in all main producing countries are anticipated.	November 1987
4.	Foreign trade with China will expand in 1988 and following years.	May 1987
5.	Average rates of growth in 1985-1990 in major industrial countries are anticipated: West Germany 3.0%; Italy 2.1% reat Britain 2.1%; France 2.0%; Japan 3.1%; Canada 2.6%	September 1987
6.	No drastic changes in international relationships are anticipated.	Permanent Assumption

0.03 FORECAST HIGHLIGHTS

* Table 0.00 on page 3 shows forecast data of selected indicators of the February 1988 KEDI forecast.

* In 1988 solid growth is expected. It will slow down a bit in the first half of 1989.

* The upward trend will continue throughout 1990-1991.

* Forecast data for 1988-1991 do not point to recession or major downturn.

* In 1988 interest rates will remain, in average, at low levels throughout most of the year. Some increases are anticipated in 1989.

* Federal budget deficits will keep declining in 1988 and the following years.

* The 1987 export-import gap will start closing to a more acceptable level.

TABLE 0.00

KEDI FORECAST HIGHLIGHTS

Data for 1987, 1988 and 1989 are on pages indicated below.

Indicator	Unit	1986	1990	1991	1992
Gross national	bil. 82$	3713.3	4132.1	4235.4	4345.5
product, p. 5	% change	2.9	2.9	2.5	2.6
Index of indust.	1977=100	125.1	142.3	147.0	152.0
prod., p. 5	% change	1.0	3.2	3.3	3.4
Capacity	%	79.6	82.9	81.7	81.0
utiliz., p. 5	% change	-1.0	.3	-1.4	-.9
Unemployment	%	7.0	5.8	6.5	6.4
rate, p. 5	% change	-3.1	.7	-1.2	-1.1
Private housing	mil.units	1.8	1.9	1.9	1.9
starts, p. 5	% change	-4.2	4.6	-2.0	3.5
Car sales,	mil.units	11.5	10.8	11.0	11.4
p. 5	% change	3.2	3.8	1.1	4.0
Implicit GNP	1982=100	114.5	131.4	136.1	141.1
price def.,p.11	% change	2.6	3.4	3.6	3.7
Consumer Price	1967=100	328.4	383.3	395.6	409.8
Index, p. 11	% change	1.9	3.9	3.2	3.6
Prod.Price Index	1967=100	289.6	342.2	357.6	371.2
(fin.goods),p.11	% change	-1.6	4.5	4.5	3.8
Federal Deficit	bil. $	-220.0	-96.2	-77.2	-62.0
p. 21	% change	8.2	-11.9	-19.8	-19.7
Personal Income	bil. $	3534.3	4625.8	4945.0	5320.8
p. 23	% change	5.8	7.9	6.9	7.6
Prime Rate	%	8.3	8.3	8.9	9.6
p. 27	% change	-11.6	-4.2	7.2	7.8
Mortgage Rate	%	9.8	9.6	9.4	9.5
p. 27	% change	-11.7	6.0	-2.7	1.8
Currency+demand	bil. $	673.2	855.4	911.8	973.8
deposits , p. 25	% change	13.4	6.2	6.6	6.8
Commercial+ind.	bil. $	517.6	588.0	550.0	3541.6
loans, p. 25	% change	5.3	3.1	2.9	2.1
Raw steel	mil.sh.tons	87.4	91.2	90.8	91.3
production	% change	-.1	.5	-.8	.4
Electric power	mil.kw-hr	2614	3355.8	3342.8	3499.6
production	% change	6.0	3.8	3.7	4.7
Bituminous coal	mil.sh.tons	872	936	973.3	984.1
production	% change	-.1	1.1	1.3	1.5
Crude oil	avg. daily bbl.	3261	2361	2371.7	2426.2
output	% change	.8	2.1	2.2	2.3
Retail sales	bil. $	1454.4	1851.6	1979.3	2117.9
p. 7	% change	6.0	7.2	6.9	7.0

Numbers in "% change" rows show percent changes over the previous year.

1988
FORECAST
DATA

Percent Change from February 1988 Forecast

+ 5.66%	Private Housing Starts
+ .21%	GNP
- .02%	Index Indus. Prod.
- .09%	Capac. Util.
- .48%	Autos
- 3.28%	Unemployment

1.10 REAL GROWTH, CONSUMER SPENDING, AND RETAIL SALES

1.11 REAL GROWTH

See Table 1.11
Page 5

THE RESUMPTION OF HIGH GROWTH RATE IS EXPECTED IN THE SECOND QUARTER OF THIS YEAR.

The economy is looking pretty good right now, without any sign of recession, largely heralded by some pessimistic forecasters just several months ago.

KEDI sticks with its prediction of healthy growth of the US economy in 1988 and afterwards. KEDI was one among very few forecasters who did not scale down the rates of growth after the October stock market decline. Actual data on the US economy after October and all current evidence confirm KEDI's assertion: NO RECESSION, but good, healthy growth ahead:

* Consumer purchases did not collapse and are showing continuous strength.
* Business capital outlays continue to grow at a fast pace.
* Employment data have shown strong increases in past months and point to a continuation of lowest unemployment rates in this decade.
* Orders in manufacturing continue to increase and the average backlogs are also rising.
* Expectations of home builders for 1988 are optimistic--recently released data indicate that the housing cycle is starting to wind up.

The overall growth of the economy in the firs quarter of this year is expected to be lower than 1987:4 because the 1987:4 growth was too fast to be sustained, and the economy needs some time to work out inventories accumulated to the end of last year. However, that is considered temporary.

TABLE 1.11
SELECTED INDICATORS I.

Quarterly data are seasonally adjusted at annual rates.

INDICATOR	GNP	Index of ind. prod.	Unem- ploy ment	Capacity util'n rate	Private housing starts	Auto sales
Unit	$82 bil.	1977=100	%	%	mil.	mil.
Year & Qtr.						
1986*	3713.3	125.1	7.04	79.6	1.805	11.5
1987:1*	3772.2	126.9	6.67	80.0	1.822	9.5
2*	3795.3	128.2	6.22	80.5	1.612	10.0
3*	3835.9	130.8	5.98	81.4	1.623	11.5 R
4	3877.9 R	133.0	5.91	82.3 R	1.517	10.0 R
YEAR	3820.3	129.7	6.20	79.6	1.643	10.2
% change from '86	2.9	3.7	-12.0	0.0	-8.9	-10.9
1988:1	3893.1	133.6	5.71	82.5	1.551	9.8
2	3912.7	134.3	5.70	82.7	1.720	10.0
3	3928.5	136.3	5.65	83.0	1.796	11.0
4	3957.8	136.5	5.61	83.1	1.695	10.6
YEAR	3923.0	135.2	5.67	82.8	1.690	10.3
% change from '87	2.7	4.2	-8.5	4.1	2.9	1.0
1989:1	3986.7	136.6	5.64	82.9	1.640	10.0
2	3997.9	137.3	5.76	82.8	1.839	10.4
3	4028.3	138.4	5.90	82.9	1.953	10.9
4	4049.6	139.2	5.88	82.0	1.846	10.5
YEAR	4015.6	137.9	5.79	82.7	1.819	10.4
% change from '88	2.4	2.0	2.2	-.2	7.6	1.0

*Historical data.
R = Revised. P = Preliminary.

1.12 CONSUMER SPENDING AND RETAIL SALES

See Table 1.12 - page 7

1988
FORECAST
DATA

Percent Change
from
February 1988
Forecast

+ .49%	Retail Sales Nondurable
+ .22%	Pers. Con. Exp. Durables
+ .05%	Retail Sales Total
- .07%	Pers. Con. Exp. Nondurable
- .65%	Retail Sales Durables
- 1.17%	Pers. Con. Exp. Nondurable

PRELIMINARY DATA FOR MOST OF FEBRUARY INDICATE THAT CONSUMER SPENDING REMAINS FAR FROM BEING RECESSIONARY.

* February retail sales are expected to increase significantly compared to the January figures. Preliminary data indicate a robust increase in sales of automobiles, and some other durables, mainly building materials, and moderate but steady gains in sales of nondurables, notable food, beverages, apparel, footwear, and gasoline.

* Consumer spending on services was strong in January and preliminary data for February indicate another hefty increase.

That all rules out the "consumer recession" some doomsayers had been predicting in November and December of last year and into early 1988.

KEDI reiterates its forecast of consumer spending for this year: moderate, solid and continuing increases throughout the year. Consumers are not and will not be depressed but they will not be spending like mad either.

TABLE 1.12

CONSUMER SPENDING AND RETAIL SALES

Quarterly data are seasonally adjusted at annual rates.

	Personal Cons. Expend.			Retail Sales		
INDICATOR	Durables	Nondurables	Services	Total	Durables	Nondurables
Unit	bil.$	bil.$	bil.$	bil.$	bil.$	bil.$
Year & Qtr.						
1986*	402.4	939.4	1458.0	1454.4	568.1	888.3
1987:1*	396.1	969.9	1527.7	1483.2	563.5	926.8
2*	409.0	982.1	1552.6	1515.6	567.1	948.5
3*	436.8	986.4	1588.1	1559.4	581.9	977.5
4	413.1 R	988.1 R	1617.9 R	1567.6	583.2	984.4
YEAR	413.8	981.6	1571.6	1531.5	573.9	959.3
% change from '86	2.8	4.5	7.8	5.3	1.0	8.0
1988:1	428.4	1001.1	1687.4	1535.2	589.6	945.6
2	431.9	1021.4	1715.1	1602.8	602.0	1000.8
3	448.1	1039.0	1695.6	1638.7	627.2	1011.5
4	451.9	1056.2	1737.8	1651.7	643.1	1008.6
YEAR	440.1	1029.4	1709.0	1607.1	615.5	991.6
% change from '87	6.4	4.9	8.7	4.9	7.2	3.4
1989:1	454.2	1072.6	1767.6	1681.0	616.6	1064.4
2	460.3	1087.3	1793.4	1693.2	632.9	1060.3
3	468.8	1096.9	1902.5	1741.4	658.2	1083.2
4	471.4	1112.4	1949.5	1762.6	687.9	1074.7
YEAR	463.7	1092.3	1853.2	1719.5	648.9	1070.7
% change from '88	5.4	6.1	8.4	7.0	5.4	8.0

* Historical data. R = Revised. P = Preliminary.

1.13 REAL GNP

See Table 1.13
Page 9

1988
FORECAST
DATA

Percent Change
from
February 1988
Forecast

+ 3.23%	State Local Purch.
+ 3.15%	Net Exports
+ 1.00%	Gross Private Dom. Inv.
+ .39%	Federal Govt. Purch.
+ .21%	GNP
- .38%	Pers. Cons. Expend.

CONTRARY TO PREDICTIONS OF DOOMSAYERS WHO PREDICTED "ALMOST THE END OF THE WORLD" AFTER THE STOCK MARKET DECLINE, THE GNP DATA SHOW THAT THE AFTER-THE-CRASH GNP GREW UP AT THE RATE UNPRECEDENTED IN THE PAST SEVERAL YEARS.

The 1987:4 growth rate of the economy has been revised upwards to a 4.7% rate, and the main adjustments have been the following:

- Less severe drop in consumer spending.
- Higher equipment purchases by businesses.

The upward revision of the fourth quarter GNP data bolstered significantly the argument that the October 19 stock market decline didn't have any negative impact on the economy.

TABLE 1.13
REAL GNP
Quarterly data are seasonally adjusted at annual rates.

INDICATOR	*-----Gross National Product					-----*
	Total	Pers. cons. expend.	Gross pvt.dom. investm.	Net exports	Fed. govt. purch.	State local purch.
Unit	$82 bil.	$82 bil.	$82 bil.	$82 bil.	$82 bil.	$82 bil.
Year & Qtr.						
1986*	3713.3	2450.5	654.0	-145.8	332.5	422.1
1987:1*	3772.2	2475.9	671.8	-135.2	327.3	432.3
2*	3795.3	2487.5	673.7	-132.7	332.6	434.4
3*	3835.9	2520.7	681.9	-138.4	336.3	435.4
4	3877.9 R	2500.9 R	717.2 R	-272.8 R	355.2 R	441.1 R
YEAR	3820.3	2496.2	686.1	-169.8	337.9	435.8
% change from '86	2.9	1.9	4.9	16.4	1.6	3.2
1988:1	3893.1	2553.2	689.7	-132.8	348.1	434.9
2	3912.7	2555.2	691.5	-127.9	350.3	443.6
3	3928.5	2556.4	694.7	-121.5	353.7	445.2
4	3957.8	2584.3	699.5	-116.2	354.1	436.1
YEAR	3923.0	2562.3	693.9	-124.6	351.6	439.9
% change from '87	2.7	2.6	1.1	-26.6	4.1	1.0
1989:1	3986.7	2594.0	702.4	-118.5	358.0	450.8
2	3997.9	2591.9	707.1	-114.4	359.6	453.7
3	4028.3	2607.7	711.5	-110.5	363.4	456.2
4	4049.6	2619.2	714.6	-108.7	365.2	459.3
YEAR	4015.6	2603.2	708.9	-113.0	361.6	455.0
% change from '88	2.4	1.6	2.2	-9.3	2.8	3.4

*Historical data.
R = Revised. P = Preliminary.

1.20 PRICES AND NOMINAL GNP

1.21 PRICES

See Tables 1.21 - page 11

THE NEW PRODUCER PRICE INDEX FOR FINISHED GOODS FOR JANUARY HAS SHOWN A SMALL .04% RISE MAINLY DUE TO INCREASES IN FOOD AND ENERGY PRICES, TO 106.2 OF THE 1982 BASE OF 100.

February declines in food and energy prices indicate that the Index for February will level off or possibly decline.

The overall outlook for producer prices in 1988 remains optimistic: steady increases in prices of crude materials, moderate gains in prices of semifinished products, and a bit faster upward trend in prices of finished goods. This translates into a 4.3% general increase in producer prices this year compared to 1987.

The Consumer Prices outlook is also optimistic. Measured by CPI that has been transferred on a new basis of 1982-1984, consumer prices increased at 4.2% compound annual rate in January, and some economists expressed fears of renewed inflation.

KEDI considers that to be a temporary situation. The prediction of moderate price increases is maintained, since the main factors at the present time that influence the consumer price level--mainly prices of energy and wage components of costs--will rise only moderately, and price increases of imported consumer goods will not be strong enough to push the consumer price level up significantly.

1988
FORECAST
DATA

Percent Change
from
February 1988
Forecast

+	.54%	State Local Purch.
-	.04%	Federal Govt. Purch.
-	.06%	Producer Price Index
-	.12%	Consumer Price Index
-	.25%	GNP
-	.29%	Pers. Cons. Expend.

TABLE 1.21
PRICES

Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

INDICATOR	*---Indexes--*		*-------Price deflators--------*			
	Cons. price index n.s.a.**	Prod. price index n.s.a.**	Gross Nat'l Prod.	Pers. cons. expend.	Fed. govt. purch.	State local purch.
Unit	1967= 100	1967= 100	1982= 100	1982= 100	1982= 100	1982= 100
Year & Qtr.						
1986*	328.4	289.7	114.1	114.3	110.2	119.3
1987:1*	334.5	292.2	116.1	116.9	112.1	122.4
2*	338.8	295.6 R	117.1	118.3	114.1	123.8
3*	342.6	297.1 R	117.9	119.5	113.6	125.6
4	345.6	297.7	118.7 R	120.7 R	111.2 R	126.8 R
YEAR	340.4	295.6	117.5	118.8	112.8	124.7
% change from '86	3.6	2.1	2.9	4.0	2.3	4.5
1988:1	348.4	305.4	120.1	122.1	113.6	127.2
2	351.6	310.5	121.1	124.0	115.7	129.2
3	355.0	315.0	122.5	124.5	117.9	131.8
4	358.1	318.3	122.7	125.6	119.4	133.8
YEAR	353.3	312.3	121.6	124.0	116.7	130.5
% change from '87	3.8	5.6	3.5	4.4	3.5	4.7
1989:1	362.5	322.7	124.0	127.0	121.3	133.0
2	366.3	328.1	125.1	128.9	122.5	135.0
3	370.4	322.2	128.4	133.0	124.0	137.1
4	376.5	337.0	130.7	134.9	125.9	139.2
YEAR	368.9	327.5	127.0	130.9	123.4	136.1
% change from '88	4.4	4.9	4.5	5.6	5.8	4.3

*Historical data. R = Revised. P = Preliminary.
**CPI: All Urban Consumers; PPI: Finished Goods.

1.22 NOMINAL GNP

See Table 1.22 - page 13

1988
FORECAST
DATA

Percent Change
from
February 1988
Forecast

+ 3.75%	State Local Purch.
+ 1.50%	Net Exports
+ .78%	Gross Private Dom. Inv.
+ .38%	Federal Govt. Purch.
- .01%	GNP
- .63%	Pers. Cons. Expend.

THE SECOND REVISION BY THE US DEPARTMENT OF COMMERCE OF DATA FOR NOMINAL GNP AND COMPONENTS DOES NOT SHOW ANY SIGNIFICANT CHANGES WHEN COMPARED TO THE FIRST ESTIMATE RELEASED IN JANUARY.

Data on some components of GNP in 1988:1 released so far indicate that the 1988:1 will look good.

The economy will slow down somewhat-- which is quite naturalbecause the 4.~~8~~5% growth rate achieved in 1987:4 was too fast to be sustained. The positive side of the expected 1988:1 figures will be the following:

* Decline in net exports. Data for January 1988 exports and imports point to a significant improvement with fast growth of exports and stabilization of imports-- declining deficits with Japan and West European countries, among others, and first surplus in trade with Great Britain, and very small increase in oil imports.

* Leveling off of inventory changes, namely sharp decline in car inventories, compensated by an increase in inventories of other manufactured goods.

* Resumption of growth of residential construction, and consumer purchases in general.

TABLE 1.22
NOMINAL GNP

Quarterly data are seasonally adjusted at annual rates.

INDICATOR	*-----------Gross National Product					---------------*
	Total	Pers. cons. expend.	Gross pvt. dom invest.	Net exports	Fed. govt. purch.	State local purch.
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	bil. $
Year & Qtr.						
1986*	4235.0	2799.8	671.0	-105.5	366.2	503.5
1987:1*	4377.7	2893.8	699.9	-112.2	366.9	529.3
2*	4445.1	2943.7	702.6	-118.4	379.6	537.6
3*	4524.0	3011.3	707.4	-123.7	382.1	546.9
4	4604.0 R	3019.2 R	756.8 R	-126.9 R	395.1 R	559.7 R
YEAR	4487.0	2964.9	716.7	-120.3	380.9	543.4
% change from '86	5.9	5.9	6.8	14.0	4.0	7.9
1988:1	4675.6	3116.9	729.8	-119.7	395.4	553.2
2	4738.3	3168.4	730.9	-118.6	405.3	573.1
3	4812.4	3182.7	728.8	-111.4	417.0	586.8
4	4856.2	3245.9	729.9	-110.7	422.8	583.5
YEAR	4770.6	3178.5	729.8	-115.1	410.1	574.1
% change from '87	6.3	7.2	1.8	-4.3	7.7	5.7
1989:1	4943.5	3294.4	736.4	-109.6	434.3	599.6
2	5001.4	3341.0	740.5	-110.8	440.5	612.5
3	5172.3	3468.2	746.8	-98.9	450.6	625.5
4	5292.8	3533.3	754.3	96.5	459.8	639.3
YEAR	5101.9	3408.9	744.5	-55.7	446.3	619.2
% change from '88	6.9	7.2	2.0	-51.6	8.8	7.8

*Historical data. R = Revised. P = Preliminary.

1.30 EMPLOYMENT AND LABOR

See Table 1.30 - page 15

THE EMPLOYMENT OUTLOOK FOR 1988 AND 1989 IS OPTIMISTIC. KEDI FORECAST CALLS FOR APPROXIMATELY 2.5 MILLION NEW JOBS THIS YEAR AND 2.0 MILLION NEW JOBS IN 1989.

Indications are that the February unemployment rate will either stay the same as in January-- 5.8% of civilian labor force, or it will further decline, possible to 5.7%, which is the lowest since 1979.

The expected half million new jobs, seasonally adjusted, created in FEbruary indicates clearly that NO significant slowdown or recession are in sight since no one economy can go into a recession after having created half a million new jobs in one or two months.

Increases in employment are expected to slow down somewhat in the second quarter of this year, mainly due to the expected flatness in job creation in manufacturing and mining. It will resume the upward trend in the third and fourth quarters of this year.

1988
FORECAST
DATA

Percent Change
from
February 1988
Forecast

+ .02%	Population
0.00%	Agriculture
- .42%	Total Employed
- .43%	Non-Agri.
- .61%	Civilian Labor Force
- 3.28%	Unemployment rate

TABLE 1.30
EMPLOYMENT & LABOR

Quarterly data are seasonally adjusted at annual rates.

			-------Employment-------			
INDICATOR	Population	Civil. labor force	Total	Agricult.	Non-agric.	Unemployment rate
Unit	mil.	mil.	mil.	mil.	mil.	%
Year & Qtr.						
1986*	241.5	117.8	109.6	3.2	106.4	7.04
1987:1*	242.9	119.2	111.2	3.2	108.1	6.67
2*	243.8	119.6	112.2 R	3.2	109.2	6.22 R
3*	245.0	120.0 R	112.9 R	3.2	109.7 R	5.98 R
4*	246.9	120.8 P	113.7 P	3.2	110.5 P	5.91 P
YEAR	244.7	119.9	113.1	3.2	109.9	6.20
% change from '86	1.3	1.8	1.7	0.0	3.3	-12.00
1988:1	247.9	121.4	114.5	3.2	111.3	5.71
2	249.6	122.0	115.0	3.2	111.8	5.70
3	250.4	122.8	115.9	3.2	112.7	5.65
4	251.5	123.6	116.7	3.2	113.5	5.61
YEAR	249.8	122.5	115.5	3.1	112.4	5.67
% change from '87	2.1	2.1	2.3	-3.1	2.3	-8.51
1989:1	253.9	124.2	117.2	3.2	114.0	5.64
2	254.3	125.0	117.8	3.1	114.7	5.76
3	255.1	125.8	118.4	3.1	115.3	5.90
4	256.0	126.5	119.1	3.1	116.0	5.88
YEAR	254.8	125.4	118.1	3.1	115.0	5.79
% change from '88	2.0	2.4	2.3	0.0	2.3	2.25

*Historical data. R = Revised. P = Preliminary.

1.41 HOUSING

See Table 1.41 - Page 17

1988
FORECAST
DATA

Percent Change
from
February 1988
Forecast

+ 5.11%	Multiple Family Housing Starts
+ 5.11%	Single Family Housing Starts
+ .82%	Mobile Home Shipments
- .46%	Permits Issued
- .56%	1-Family Unit price New
- .68%	1-Family Unit price Existing

ALL INDICATIONS POINT TO A REBOUND IN HOUSING--AS KEDI HAS BEEN PREDICTING FOR A LONG TIME. THE HOUSING CYCLE IS STARTING TO WIND UP.

Apparently the trough of the cycle of housing starts was reached in December of last year (a 15.8% plunge in December compared to November 1987). The 1.9% drop in starts in January has been a temporary aberration due to the unusually harsh weather. For February, expectations are for at least 5-10% rebound, followed by 10-15% further increase in March in housing starts.

Reports of single-family builders indicate that they are bullish about this year. KEDI reiterates that the building season of this year will be solid and will help extend the expansion of the economy.

KEDI forecast data show a strong expansion in single-family units. The apartment construction will also rebound, but at a slower rate, however, mainly due to continuing negative impact of the 1986 tax legislation, cutbacks in Federal housing assistance, high vacancy rates, and the lagging income of renters.

TABLE 1.41
HOUSING

Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

INDICATOR Unit	Single family housing starts mil.	Multi-family housing starts mil.	Mobile home shipments mil.	Permits authorized mil.	1-Fam. unit price new** tho. $	1-Fam. unit price exist** tho. $
Year & Qtr.						
1986*	1.179	.628	.244	1.769	112.6	98.3
1987:1*	1.256	.539	.234	1.682	121.1	103.9
2*	1.142 R	.470 R	.227	1.536	125.9	105.8
3*	1.155 R	.468 R	.241	1.497	131.0	108.0
4*	1.079 R	.438 R	.231 P	1.424 R	134.7 P	111.6 P
YEAR	1.158	.479	.233	1.535	128.2	107.3
% change from '86	-1.8	-23.8	-4.4	-13.2	13.8	9.2
1988:1	1.140	.411	.230	1.468	137.1	113.0
2	1.283	.437	.248	1.557	139.3	114.2
3	1.309	.487	.259	1.624	143.0	118.7
4	1.229	.466	.251	1.598	144.6	120.1
YEAR	1.240	.450	.247	1.562	141.0	116.5
% change from '87	7.1	-6.0	5.9	1.8	10.0	8.5
1989:1	1.158	.482	.232	1.480	146.2	121.1
2	1.291	.548	.245	1.652	148.8	124.2
3	1.383	.570	.282	1.804	150.4	126.5
4	1.278	.568	.277	1.859	153.0	131.4
YEAR	1.277	.542	.259	1.699	149.6	125.8
% change from '88	3.0	20.4	4.9	8.8	6.1	8.0

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*Historical data. R = Revised. P = Preliminary.
**Average. Not seasonally adjusted.

1.42 AUTOMOBILES

See Table 1.42 - page 19

THE OUTLOOK FOR CAR PRODUCTION AND SALES IS OPTIMISTIC. THE JANUARY DATA ON PASSENGER CAR PRODUCTION AND SALES WERE STRONGER THAN DATA ON JANUARY 1987.

Preliminary data for the most of February point to approximately 10% better sales for for a comparable period of 1987. February sales point to approximately 8.9 million sales at annual rate, compared to the 7.6 million figure for February 1987.

It is expected that inventories of domestic cars will drop to approximately 65 supply days from 79 days during January--that's good news. That means that the excessive build-up of inventories in 1987:4 has been reduced to a more normal level.

January and February data on car production and sales underline, again, that in actuality, there has been NO IMPACT of the October stock market decline on the automobile market. The automobile cycle is clearly winding up.

1988
FORECAST
DATA

Percent Change
from
February 1988
Forecast

+ .97%	Shipments
+ .83%	Imported Car Sales
+ .68%	Total Light Truck Sales
0.00%	Dealer Inventory
- .48%	Total Car Sales
- 1.01%	Domestic Car Sales

TABLE 1.42
AUTOMOBILES

Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

INDICATOR	Total car sales	Car sales dom.	Car sales imp.	Dealer car inventory n.s.a. **	Factory car shipments	Total light truck sales
Unit	mil.	mil.	mil.	mil.	mil.	mil.
Year & Qtr.						
1986*	11.5	8.2	3.2	1.5	7.5	3.7
1987:1*	9.5	6.7 R	2.8 R	1.9	8.0	3.4
2*	10.0	7.0 R	3.0 R	1.9	8.0	3.8 R
3*	11.5 R	7.9 R	3.6 R	1.4	5.2	4.1 R
4*	10.0 R	6.7 P	3.3 P	1.7 R	7.2 R	3.8 P
YEAR	10.2	7.1	3.2	1.7	7.1	3.8
% change from '86	-10.9	-13.7	-.8	13.3	-5.3	2.0
1988:1	9.8	6.9	2.9	1.6	7.7	3.5
2	10.0	7.1	2.9	1.7	7.7	3.8
3	11.0	7.8	3.2	1.7	8.0	3.9
4	10.6	7.5	3.1	1.6	7.7	3.7
YEAR	10.3	7.3	3.0	1.6	7.8	3.7
% change from '87	1.0	5.7	-4.7	-5.9	9.5	-1.3
1989:1	10.0	7.0	3.0	1.7	7.3	3.2
2	10.4	7.4	3.0	1.8	7.5	3.5
3	10.9	7.8	3.1	1.7	7.8	3.7
4	10.5	7.4	3.1	1.6	7.7	3.5
YEAR	10.4	7.4	3.0	1.6	7.6	3.5
% change from '88	1.0	.1	.8	0.0	-2.6	-6.7

*Historical data. R = Revised. P = Preliminary.
**End of period data.

1.50 BUDGETS

See Table 1.50 - page 21

IT IS ANTICIPATED THAT THE $1.1 TRILLION BUDGET FOR FISCAL YEAR 1989, STARTING OCTOBER 1 OF THIS YEAR WILL BE ENACTED BY CONGRESS.

It will leave a deficit of $134.1 billion, enough to avoid automatic spending cuts under the budget balancing rules.

KEDI's forecast of the federal budget deficit in FY 1989 is for $137.2 billion. That is $3.0 billion more that the above figure, but far from the $170 billion deficit forecasted by the Congressional Budget Office.

Comparison of actual federal deficits and the CBO forecasts for past fiscal years shows that the CBO was usually wrong in its predictions by overestimating the federal deficit by wide margins.

1988
FORECAST
DATA

Percent Change
from
February 1988
Forecast

+ 5.20%	State Local Corp. Tax Accrued
+ .14%	State Income Tax
- .04%	Corporate Profit Tax Accrued
- .18%	State Surplus/ Deficit
- .20%	Federal Income Tax
- 1.34%	Federal Surplus/ Deficit

TABLE 1.50
FEDERAL, STATE AND LOCAL BUDGETS
Quarterly data are seasonally adjusted at annual rates.

	-----FEDERAL----------			*---STATE AND LOCAL----*		
INDICATOR	Income taxes	Corp. profits tax accru.	Surplus /deficit	Income taxes	Corp. profits tax accru.	Surplus /deficit
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	bil. $
Year & Qtr.						
1986*	363.0	83.7	-204.7	149.3	21.3	56.8
1987:1*	381.5	103.0	-170.5	154.6	25.0	41.0
2*	415.6	107.9	-139.2	162.3	26.4	50.6
3*	404.3	114.5	-135.8	161.4	28.4	46.5
4	413.5 R	115.7 P	-146.1 P	165.9 R	29.0 P	51.6 P
YEAR	403.7	110.3	-147.9	161.1	27.2	47.4
% change from '86	11.2	31.8	-27.7	7.9	27.7	-16.5
1988:1	420.7	114.2	-139.0	168.8	30.2	53.0
2	429.0	120.1	-136.1	170.2	31.3	54.2
3	436.1	121.0	-132.0	176.2	32.1	56.4
4	448.0	123.7	-128.4	181.0	31.8	58.0
YEAR	433.4	119.8	-133.9	174.1	31.4	55.4
% change from '87	7.4	8.6	-9.5	8.1	15.3	16.8
1989:1	452.1	125.0	-118.1	183.6	32.0	59.0
2	457.4	127.1	-110.2	185.8	32.7	60.1
3	466.9	129.9	-106.3	188.7	33.1	61.7
4	471.6	132.7	-102.2	192.0	34.5	62.4
YEAR	462.0	128.7	-109.2	187.5	33.1	60.8
% change from '88	6.6	7.5	-18.4	7.7	5.5	9.7

*Historical data. R = Revised. P = Preliminary.

1.60 INCOME

See Table 1.60 - page 23

1988
FORECAST
DATA

Percent Change
from
February 1988
Forecast

+ 6.22%	Personal Savings
0.00%	Comp. of Employees
- .03%	Average Weekly Earnings
- .17%	Corp. After Tax Earnings
- .25%	Personal Income
- .28%	Personal Disp. Income

IN JANUARY PERSONAL INCOME ROSE TO A SEASONALLY ADJUSTED ANNUAL RATE OF $3.879 TRILLION FROM DECEMBER'S 1987 $3.866--A .3% INCREASE COMMENSURATE TO A GROWTH OF OTHER AGGREGATES.

Forecast data for 1988 and 1989 for Personal Income and Personal Disposable Income do not show any significant aberrations from a regular upward trend. Personal Saving is expected to drop back to its normal level of $100-110 billion in the following months.

Outlook for corporate profit is bright. Among the factors that will positively affect the corporate profit formation: the international value of the dollar will continue to produce significant gains in exports profits and so will the effect of a 12 percentage-point decline in corporate tax rates. Among other factors: expected low increases in wage rates, fairly strong demand for crude materials and other intermediate commodities, accounting changes for 1988 and 1989, all will contribute to healthy gains in expected earnings in this year.

Note: In 1987, corporate profits rose 15%, despite the disastrous results by big banks forced to write down Third World debt, AND: after the October stock market decline, corporate profits, i.e. profits for the fourth quarter of 1987 rose by 36%!

TABLE 1.60
INCOME

Quarterly data are seasonally adjusted at annual rates.

INDICATOR	Pers. income	Pers. disp. income	Comp. of empl.	Corp. after tax profits	Pers. saving	Avg. week earn.
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	$
Year & Qtr.						
1986*	3534.3	3022.1	2504.9	126.8	130.6	382.0
1987:1*	3662.0	3125.9	2589.9	129.0	138.4	391.2
2*	3708.6	3130.6	2623.4	134.5	93.2	403.1
3*	3761.0	3195.3	2663.5	141.9	88.8	406.6
4	3853.6 R	3274.2 R	2739.0 P	146.1 P	157.9 R	416.1 P
YEAR	3746.3	3181.5	2653.9	137.9	119.6	404.2
% change from '86	6.0	5.3	6.0	8.7	-8.4	5.8
1988:1	3925.4	3335.9	2780.8	153.7	114.7	419.7
2	3981.9	3382.7	2809.0	156.0	108.6	421.4
3	4013.7	3401.4	2893.0	158.4	111.6	420.3
4	4099.0	3470.0	2940.0	161.2	115.9	426.5
YEAR	4005.0	3397.5	2855.7	157.3	112.7	422.0
% change from '87	6.9	6.8	7.6	14.1	-5.7	4.4
1989:1	4152.8	3517.1	2982.6	168.4	111.4	430.2
2	4208.9	3565.7	2983.7	170.3	112.3	435.2
3	4355.8	3700.2	3054.1	182.6	118.5	437.2
4	4431.1	3767.5	3089.3	182.4	119.4	440.5
YEAR	4287.1	3637.6	3027.4	175.9	115.4	435.8
% change from '88	7.0	7.1	6.0	11.8	2.4	3.3

*Historical data. R = Revised. P = Preliminary.

1.70 MONEY AND CREDIT

See Table 17.0 - page 25

FORECAST DATA FOR 1988 INDICATE MODERATE GROWTH IN MONETARY AND CREDIT AGGREGATES. S

KEDI assumes the policy of the Federal Reserve will not be encouraging the growth of money supply since there is NOT, at the present time and in the near future, any necessity to stimulate the growth of the economy by increasing the amount of money.

On the contrary, a fast growth of money supply would aggravate the already serious situation with regard to the international position of the dollar. Worldwide, there virtually exists a dollar GLUT, and further heavy injections of dollars to foreign holders my result in significant weakening of the international value of US currency.

Forecast data for credit aggregates point to a regular growth commensurate to the growth rate of the economy--neither an excessive growth nor contractions in credit aggregates are foreseen.

1988
FORECAST
DATA

Percent Change
from
February 1988
Forecast

+	.16%	Consumer Install. Credit
+	.10%	Time Deposits
+	.04%	Comm. & Indust. Loans at Banks
+	.01%	Mortg. at savings inst'ns
-	.02%	Large Denom. Time Deposits
-	.75%	Consumer & Demand Deposits

TABLE 1.70
MONEY & CREDIT

Data for "Currency and demand deposits, M1", and "Time deposits, adjusted, M2" are averages of daily figures; other data are end of period figures.

INDICATOR	Currency and demand deposits M1, s.a.	Time deposit adjust. M2,s.a.	Cons. instal. credit n.s.a. **	Comm.& indus. loans at banks s.a.	Large denom. time dep. s.a.	Mortg. at sav. inst'n. ** n.s.a.
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	bil. $
Year & Qtr.						
1986*	667.4 R	2687.3 R	577.8	517.6	447.1	2566.7
1987:1*	732.3	2830.5 R	579.9	520.4	449.3	2662.3
2*	744.4 R	2849.4 R	587.9	526.1	459.8	2754.5
3*	745.9 R	2869.5 R	602.6 R	532.3	466.4 R	2830.5 R
4*	753.3 R	2898.4 R	610.4	540.6	489.6	2901.7
YEAR	744.0	2861.9	610.9	540.6	489.6	2901.7
% change from '86	11.5	6.5	5.7	5.3	9.5	13.1
1988:1	761.1	2872.4	616.3	544.8	492.9	2940.9
2	766.3	2935.5	622.8	546.7	496.4	2987.1
3	772.8	2999.8	630.8	550.3	501.7	3069.4
4	781.8	3064.6	642.9	558.2	509.7	3130.5
YEAR	770.5	2968.1	642.9	558.2	509.7	3130.5
% change from '87	3.6	3.7	5.2	3.3	4.1	7.9
1989:1	792.3	3118.4	650.2	562.4	506.7	3209.0
2	800.5	3162.0	660.8	563.3	513.5	3279.2
3	810.4	3219.4	680.2	565.2	517.9	3368.8
4	818.6	3278.1	691.8	570.3	534.5	3468.8
YEAR	805.5	3194.5	691.8	570.3	534.5	3468.8
% change from '88	4.5	7.6	7.6	2.2	4.9	10.8

*Historical data. n.s.a: not seasonally adjusted.
s.a.: seasonally adjusted at annual rates.
R = Revised. P = Preliminary.

1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES

See Table 1.80 - page 27

1988
FORECAST
DATA

Percent Change
from
February 1988
Forecast

+ 8.87%	Aaa Corp. Bond Rate
+ 1.53%	Conv. Mortg. Rate
+ 1.25%	Prime Rate
+ .09%	S & P's 500 Avg.
+ .33%	20 Year Govt. Bond Yield
-11.18%	Treas. Bills 3 mo. Yield

KEDI DOES NOT SHARE PROSPECTS OF SOME ECONOMISTS WHO ARE CONCLUDING FROM RECENT FED CHAIRMAN'S REMARKS THAT INTEREST RATES WILL GO UP THIS YEAR.

KEDI's forecast of declining interest rates this year is based on the following:

* Interest rates in key countries in the World are declining. That means the Fed has no necessity to raise the US interest rates since the interest rates differentials are already wide enough to keep attracting foreign capital to the US.

* Higher interest rates would seriously damage some areas of the US economy that are still not strong enough to withstand a more expensive credit. Notably, in housing, that is recuperating from the slump, and construction in general, higher interest rates may seriously imperil their performance.

* Higher interest rates would slow down business capital outlays and would negatively affect the auto market.

* There is no need to check the inflation by raising interest rates since there are no indications of dangerous inflationary pressures.

TABLE 1.80
INTEREST RATES, YIELDS & SECURITIES PRICES

Quarterly averages of monthly figures.

INDICATOR	Treas. bills 3 mo. yield	Prime rate	Conv. mortg rate	Aaa corp. bond rate	30 yr. Govt. bonds yield	S & P's 500 Avg 1941-43 = 10
Unit	%	%	%	%	%	
Year & Qtr.						
1986*	5.97	8.33	9.82	9.02	7.80	236.34
1987:1*	5.53	7.50	9.06	8.37	7.87	279.30
2*	5.66	8.05	8.98	9.17	8.53	293.27
3*	6.03	8.40	9.12 R	9.76	9.39	319.37
4	5.76	8.65	9.34	9.96	9.09	250.74
YEAR	5.75	8.15	9.12	9.31	8.72	285.67
% change from '86	-3.8	-2.2	-7.1	3.3	11.8	20.9
1988:1	5.84	8.50	9.15	10.04	8.86	261.21
2	5.72	8.38	8.88	9.88	8.56	268.62
3	5.68	8.26	8.66	9.78	8.34	279.43
4	5.89	8.19	8.48	9.32	8.15	282.14
YEAR	5.78	8.33	8.79	9.75	8.48	272.85
% change from '87	.7	2.2	-3.6	4.7	-2.8	-4.5
1989:1	6.05	8.35	8.35	9.44	8.26	282.32
2	6.18	8.57	9.14	9.53	8.29	285.57
3	6.28	8.87	9.41	9.48	8.48	294.87
4	6.39	8.97	9.48	9.68	8.64	306.47
YEAR	6.22	8.69	9.10	9.53	8.42	292.31
% change from '88	7.7	4.3	3.4	-2.3	-.7	7.1

*Historical data. R = Revised. P = Preliminary.

2.0 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, comparisons of accuracy of the percent change in GNP Price Deflator 1986:4-1987:4 of the U.S. economy has been selected. Actual numbers are in the Survey of Current Business, January 1988 issue, Table 7.1 (U.S. Department of Commerce, Washington, D.C., monthly). Forecast data are in Business Week, December 29, 1986/January 5, 1987 issue, p. 63.

TABLE 2.0

COMPARISONS OF ACCURACY OF PREDICTIONS
(Percent change of GNP Price Deflator
from 1986:4 to 1987:4)
Actual figure: 3.3%

Forecaster	Date of Forecast	Forecast %	Accuracy (actual - forecast)
Univ. of Calif. at LA	12/86	2.9	-.4
Fairmodel, Economia	12/86	2.0	-1.3
RSQE, Univ. of Michigan	12/86	3.6	-.6
Kent Economic and Development Inst., Inc.	12/86	3.4	-.1
Wharton Econometrics	12/86	3.8	-.5
Data Resources	12/86	3.9	-.6
Evans Economics	12/86	3.4	-.1
Chase Econometrics	12/86	3.1	.2
Lawrence H. Meyer & Assoc.	12/86	2.7	.6
Merrill Lynch Economics	12/86	3.4	-.1
Georgia State Univ.	12/86	3.6	-.3

3.00 HISTORICAL DATA SOURCES

For reader's convenience listed below are sources of historical data series for the forecasts appearing in the Survey. The first column of the following table refers to the table in this Survey, the second column to the name of forecast series, and the third column identifies the source of historical data. The sources are: **Survey of Current Business** referred to as SCB (monthly, U. S. Department of Commerce, Washington, D.C.), **Federal Reserve Bulletin,** FRB, (Board of Governors of the Federal Reserve System, Washington, D.C. monthly), **Index of Industrial Production,** G.12.3 Release, IIP, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly.)

TABLE 3.00

HISTORICAL DATA SOURCES

Table Number	Data Series	Source
1.11 Selected Indicators of Real Growth I.	Gross national product, 1982 $	SCB, Table 1.2
	Index of industrial production	IIP, p. 2.
	Unemployment rate	SCB, Blue pages
	Capacity utilization rate	FRB, Table 2.11
	Private housing starts	SCB, Blue pages
	Car sales	SCB, Blue pages
1.12 Selected Indicators of Real Growth II.	Personal Cons. expend: Durables,	SCB, Table 1.1
	Nondurables	SCB, Table 1.1
	Services	SCB, Table 1.1
	Retail sales: Total	SCB, Blue pages
	Durables	SCB, Blue pages
	Nondurables	SCB, Blue pages
1.12 Real GNP	Gross national product, 1982 $	SCB, Table 1.2
	Personal consumpt. expenditures	SCB, Table 1.2
	Gross private dom. investment	SCB, Table 1.2
	Net exports	SCB, Table 1.2
	Federal purchases	SCB, Table 1.2
	State and local purchases	SCB, Table 1.2
1.21 Prices	Consumer price index	SCB, Blue pages
	Producer price index	SCB, Blue pages
	Implicit price deflators: GNP	SCB, Table 7.1
	Personal consumpt. expenditures	SCB, Table 7.1
	Federal purchases	SCB, Table 7.1
	State and local purchases	SCB, Table 7.1
1.22 Nominal GNP	Gross national product	SCB, Table 1.1
	Personal consumpt. expenditures	SCB, Table 1.1
	Gross private dom. investment	SCB, Table 1.1
	Net exports	SCB, Table 1.1
	Federal purchases	SCB, Table 1.1
	State and local purchases	SCB, Table 1.1

(Table 3.00 continues on the following page.)

TABLE 3.00

HISTORICAL DATA SOURCES (CONTINUED)

Table Number	Data Series	Source
1.30 Employment and Labor	Population	SCB, Blue pages
	Civilian labor force	SCB, Blue pages
	Employment	SCB, Blue pages
	Agriculture	SCB, Blue pages
	Non-agriculture	SCB, Blue pages
	Unemployment rate	SCB, Blue pages
1.41 Housing	Single-family housing starts	SCB, Blue pages
	Multifamily housing starts	SCB, Blue pages
	Mobile home shipments	SCB, Blue pages
	Permits authorized	SCB, Blue pages
	1-family unit price, new	FRB, Table 2.14
	1-family unit price, existing	FRB, Table 2.14
1.42 Autos	Passenger cars: Total sales	SCB, Blue pages
	Domestic	SCB, Blue pages
	Imported	SCB, Blue pages
	Dealers inventories	SCB, Blue pages
	Factory shipments	SCB, Blue pages
	Light-duty truck sales	SCB, Blue pages
1.50 Federal State & Local Budgets	Federal govt: Income taxes	SCB, Table 3.2
	Corporate profit tax accruals	SCB, Table 3.2
	Surplus/Deficit	SCB, Table 3.2
	State & local govt:Income taxes	SCG, Table 3.3
	Corporate profit tax accruals	SCG, Table 3.3
	Surplus/Deficit	SCB, Table 3.3
1.60 Income	Personal income	SCB, Table 2.1
	Personal disposable income	SCB, Table 2.1
	Compensation of employees	SCB, Table 1.11
	Corporate after tax profits	SCB, Table 1.11
	Personal saving	SCB, Table 2.1
	Average weekly earnings	SCB, Blue pages
1.70 Money and Credit	Currency and demand deposits, M1	FRB, Table 1.21
	Time deposits, adjusted, M2	FRB, Table 1.21
	Consumer installment credit	FRB, Table 1.55
	Commercial and industrial loans	FRB, Table 1.23
	Large denomination time deposits	FRB, Table 1.21
	Mortgages at S&L Associations	FRB, Table 1.54
1.80 Interest Rates, Yields, & Securities Prices	Treasury bills (3 mo) yield	FRB, Table 1.35
	Prime rate	FRB, Table 1.33
	Conventional mortgage rate	FRB, Table 1.53
	Aaa corporate bonds rate	FRB, Table 1.35
	20 years government bonds yield	FRB, Table 1.35
	Standard & Poor's 500 average	FRB, Table 1.36

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KENT ECONOMIC AND DEVELOPMENT INSTITUTE, INC.

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KEDI ECONOMIC SURVEY

April 1, 1988

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SOURCES:

U.S.Department of Commerce third estimate of 1987:4, National Income and Product data, March 20, 1988.

Board of Governors of the Federal Reserve System release of the Index of Industrial Production, March 1988.

The latest available data on prices, employment, industrial and financial developments.

0.00 INTRODUCTION

0.01 EXECUTIVE SUMMARY

HIGHLIGHTS

Real Growth

Recently released data are optimistic and point to continuous and sustained overall growth without a recession or slowdown.

Prices

The CPI increased a meager .2% in February, mainly due to a fall in prices of food and beverages, apparel, and energy.

Employment & Labor

In theory, the 6% unemployment rate is considered as full employment. Should economists rethink some definitions?

Housing

Recently released data on housing confirm KEDI's prediction that a rebound in housing is underway.

Automobiles

As in the housing segment of the economy, data in the automotive segment indicate the start of a rebound.

Budgets

Forecast data for Federal budget deficits have been increased compared to the March forecast.

Income

Personal income in February rose to $3.914 trillion from a revised $3.880 trillion in January.

Money & Credit

KEDI does not anticipate any pushing up of interest rates, but look for slight tightening in the money supply

Interest Rates, Yields & Securities Prices

Forecast of interest rates for 1988 and 1989 remains unchanged with low rates this year .

0.02 ASSUMPTIONS

		Last Update
1.	In 1988, the weighted price of oil will increase slightly as compared to 1987. It will continue increasing in the 1989-1990 period.	April 1986
2.	A longer-lasting relaxation in monetary and credit policies will last throughout 1988. More tightening is not expected earlier than in 1989.	February 1988
3.	In 1988 and 1989 good crops in all main producing countries are anticipated.	November 1987
4.	Foreign trade with China will expand in 1988 and following years.	May 1987
5.	Average rates of growth in 1985-1990 in major industrial countries are anticipated: West Germany 3.0%; Italy 2.1% Great Britain 2.1%; France 2.0%; Japan 3.1%; Canada 2.6%	September 1987
6.	No drastic changes in international relationships are anticipated.	Permanent Assumption

0.03 FORECAST HIGHLIGHTS

- Table 0.00 on page 3 shows forecast data of selected indicators of the April 1988 KEDI forecast.
- In 1988 solid growth is expected. It will slow down a bit in the first half of 1989.
- The upward trend will continue throughout 1990-1991.
- Forecast data for 1988-1991 do not point to recession or major downturn.
- In 1988 interest rates will remain, in average, at low levels throughout most of the year. Some increases are anticipated in 1989.
- Federal budget deficits will keep declining in 1988 and the followiny years.
- The 1987 export-import gap will start closing to a more acceptable level.

TABLE 0.00

KEDI FORECAST HIGHLIGHTS

Data for 1987, 1988 and 1989 are on pages indicated below.

Indicator	Unit	1986	1990	1991	1992
Gross national	bil. 82$	3713.3	4147.4	4251.1	4361.7
product, p. 5	% change	2.9	2.9	2.5	2.6
Index of indust.	1977=100	125.1	143.1	147.8	152.9
prod., p. 5	% change	1.0	3.2	3.3	3.4
Capacity	%	79.6	83.0	81.7	81.3
utiliz., p. 5	% change	-1.0	.3	-1.6	-.5
Unemployment	%	7.0	5.8	6.5	6.4
rate, p. 5	% change	-3.1	.7	-1.2	-1.1
Private housing	mil.units	1.8	1.9	1.9	1.9
starts, p. 5	% change	-4.2	4.6	-2.0	3.5
Car sales,	mil.units	11.5	1.9	1.9	2.0
p. 5	% change	3.2	3.8	1.1	4.0
Implicit GNP	1982=100	114.5	131.2	135.9	141.0
price def.,p.11	% change	2.6	3.4	3.6	3.7
Consumer Price	1967=100	328.4	383.1	395.4	409.6
Index, p. 11	% change	1.9	3.9	3.2	3.6
Prod.Price Index	1967=100	289.6	342.2	357.6	371.2
(fin.goods),p.11	% change	-1.6	4.5	4.5	3.8
Federal Deficit	bil. $	-220.0	-103.9	-83.3	-66.9
p. 21	% change	8.2	-11.9	-19.8	-19.7
Personal Income	bil. $	3534.3	4626.9	4946.2	5312.2
p. 23	% change	5.8	7.9	6.9	7.4
Prime Rate	%	8.3	8.3	8.9	9.6
p. 27	% change	-11.6	-4.0	7.2	7.8
Mortgage Rate	%	9.8	9.6	9.4	9.5
p. 27	% change	-11.7	6.0	-2.7	1.8
Currency+demand	bil. $	673.2	856.7	913.2	975.3
deposits , p. 25	% change	13.4	6.0	6.6	6.8
Commercial+ind.	bil. $	517.6	587.3	560.4	3530.8
loans, p. 25	% change	5.3	3.0	2.9	2.1
Raw steel	mil.sh.tons	87.4	90.1	90.8	91.3
production	% change	-.1	.4	-.8	.4
Electric power	mil.kw-hr	2614	3355.8	3342.8	3499.6
production	% change	6.0	3.8	3.7	4.7
Bituminous coal	mil.sh.tons	872	936	973.3	984.1
production	% change	-.1	1.1	1.3	1.5
Crude oil	avg. daily bbl.	3261	2361	2371.7	2426.2
output	% change	.8	2.1	2.2	2.3
Retail sales	bil. $	1454.4	1843.4	1970.5	2108.5
p. 7	% change	6.0	7.2	6.9	7.0

Numbers in "% change" rows show percent changes over the previous year.

1988
FORECAST
DATA

Percent Change
from
March 1988
Forecast

+ 2.18%	Autos
+ .32%	GNP
+ .31%	Index Indus.
+ .09%	Capac. Util.
- .28%	Private Housing Starts
- .40%	Unemployment

1.10 REAL GROWTH, CONSUMER SPENDING, AND RETAIL SALES
1.11 REAL GROWTH

See Table 1.11
Page 5

RECENTLY RELEASED DATA ARE OPTIMISTIC AND POINT TO CONTINUOUS AND SUSTAINED OVERALL GROWTH WITHOUT A RECESSION OR SLOWDOWN:

* January unfilled order increased to $408.38 bil. from $403.50 bil. in December, while new orders remained essentially flat.

* February housing permits climbed 8.9% over January.

* Production of cars and light trucks continues above the year-earlier levels.

* Export orders for machinery, fabricated matal products, chemicals and products, paper and products, and plastics continue increasing.

* Recent report of the US Department of Commerce shows that, in 1982$, American businesses plan to increase their spending on plants and equipment by 8.8% this year, compared to an increase of 1.7% in 1987 and a 2.6% drop in 1986.

* Index of leading indicators rose in February to 190.6% from January's 188.9%.

* In February, factory shipments rose to $207.39 bil. from January's $207.24 bil.

TABLE 1.11
SELECTED INDICATORS I.

Quarterly data are seasonally adjusted at annual rates.

INDICATOR	GNP	Index of ind. prod.	Unem-ploy ment	Capacity util'n rate	Private housing starts	Auto sales
Unit	$82 bil.	1977=100	%	%	mil.	mil.
Year & Qtr.						
1986*	3713.3	125.1	7.04	79.6	1.750 R	11.5
1987:1*	3772.2	126.9	6.67	80.0	1.822	9.5
2*	3795.3	128.2	6.22	80.5	1.612	10.0
3*	3835.9	130.9	5.98	81.4	1.623 R	11.5
4*	3880.8 R	133.2	5.91	82.3	1.534 R	10.1 R
YEAR	3821.1	129.8	6.20	79.6	1.648	10.3
% change from '86	2.9	3.8	-12.0	0.0	-5.8	-10.7
1988:1	3903.7	134.2	5.71	82.6	1.553	10.1
2	3924.7	135.3	5.63	82.8	1.722	10.2
3	3943.4	136.2	5.64	83.0	1.802	11.0
4	3970.2	136.8	5.61	83.1	1.704	10.8
YEAR	3935.5	135.6	5.65	82.9	1.695	10.5
% change from '87	3.0	4.5	-8.8	4.1	2.9	2.4
1989:1	4001.6	137.3	5.63	82.9	1.643	10.0
2	4012.8	138.7	5.72	82.8	1.850	10.5
3	4043.5	138.9	5.82	82.9	1.967	11.0
4	4064.3	139.8	5.80	82.4	1.843	10.7
YEAR	4030.6	138.7	5.74	82.8	1.826	10.6
% change from '88	2.4	2.2	1.7	-.2	7.7	.2

*Historical data.
R = Revised. P = Preliminary.

1.12 CONSUMER SPENDING AND RETAIL SALES

See Table 1.12 - page 7

1988
FORECAST
DATA

Percent Change
from
March 1988
Forecast

+	.62%	Retail Sales Nondurable
+	.60%	Pers. Con. Exp. Durables
+	.31%	Retail Sales Total
+	.04%	Pers. Con. Exp. Nondurable
-	.03%	Pers. Con. Exp. Services
-	.17%	Retail Sales Durable

DATA ON RETAIL SALES FOR MOST OF MARCH POINT TO MODERATE GAINS COMPARED TO FEBRUARY RESULTS.

They do not indicate any CONSUMER RECESSION at all which was supposed to be in progress now according to dire predictions of some noted economists, as released in November and December of last year.

KEDI forecast data show that the outlook for retailing will improve.

Recently conducted surveys, such as the University of Michigan Index of Consumer Sentiments, and the Conference Board Surveys disclose an increasingly optimistic attitude on the part of consumers.

Data convincingly indicate that consumer outlays are rebounding from their drop in the fourth quarter of 1987, even as

consumers continue to rebuild their savings, and consumers are giving stronger support to the economy than some economists sought.

TABLE 1.12

CONSUMER SPENDING AND RETAIL SALES

Quarterly data are seasonally adjusted at annual rates.

	*--Personal Cons. Expend.-**			------Retail Sales-------*		
INDICATOR	Durables	Nondurables	Services	Total	Durables	Nondurables
Unit	bil.$	bil.$	bil.$	bil.$	bil.$	bil.$
Year & Qtr.						
1986*	402.4	939.4	1458.0	1454.4	568.1	888.3
1987:1*	396.1	969.9	1527.7	1483.2	563.5	926.8
2*	409.0	982.1	1552.6	1515.6	567.1	948.5
3*	436.8	986.4	1588.1	1562.7 R	581.9	980.8
4	413.0 R	993.1 R	1616.5 R	1573.6 R	595.8 R	984.4 R
YEAR	413.7	982.9	1571.2	1533.8	577.1	960.1
% change from '86	2.8	4.6	7.8	5.5	1.6	8.1
1988:1	430.1	1001.1	1678.3	1540.2	589.6	950.6
2	434.9	1021.6	1714.1	1612.9	601.8	1011.1
3	449.1	1039.4	1710.4	1640.7	626.0	1014.7
4	456.9	1057.0	1731.4	1654.7	640.3	1014.4
YEAR	442.8	1029.8	1708.6	1612.1	614.4	997.7
% change from '87	7.0	4.8	8.7	5.1	6.5	3.9
1989:1	459.2	1075.6	1764.4	1682.6	619.9	1062.7
2	469.3	1092.3	1777.8	1694.5	634.7	1059.8
3	475.8	1096.9	1911.5	1745.8	661.3	1084.5
4	479.4	1112.4	1948.1	1769.7	689.9	1079.8
YEAR	470.9	1094.3	1850.5	1723.2	651.5	1071.7
% change from '88	6.4	6.3	8.3	6.9	6.0	7.4

* Historical data. R = Revised. P = Preliminary.

1988
FORECAST
DATA

Percent Change
from
March 1988
Forecast

+ 3.83%	Net Exports
+ 1.26%	Gross Private Dom. Inv.
+ 1.26%	State Local Purch.
+ .49%	Pers. Cons. Expend.
+ .32%	GNP
- .16%	Federal Govt. Purch.

1.13 REAL GNP

See Table 1.13
Page 9

THE THIRD REVISION OF THE REAL GNAP IN 1987:4 BROUGHT SOME CHANGES, MOST OF THEM IN THE RIGHT DIRECTION: 4.8% growth rate instead of previously reported 4.5%; a bit more improvement in the trade balance; slight increase in nonresidential fixed investment now estimated to have risen rather than fallen, while home building showed a smaller gain than was found a month ago.

The change-in-business inventories figure has been reduced slightly providing further evidence that the fourth-quarter buildup in inventories was not quite as big of a threat to the first quarter's growth as some economists feared.

TABLE 1.13
REAL GNP

Quarterly data are seasonally adjusted at annual rates.

	-----------Gross National Product---------------					
INDICATOR	Total	Pers. cons. expend.	Gross pvt.dom. investm.	Net exports	Fed. govt. purch.	State local purch.
Unit	$82 bil.	$82 bil.	$82 bil.	$82 bil.	$82 bil.	$82 bil.
Year & Qtr.						
1986*	3713.3	2450.5	654.0	-145.8	332.5	422.1
1987:1*	3772.2	2475.9	671.8	-135.2	327.3	432.3
2*	3795.3	2487.5	673.7	-132.7	332.6	434.4
3*	3835.9	2520.7	681.9	-138.4	336.3	435.4
4*	3880.8 R	2504.6 R	723.1 R	-135.8 R	347.6 R	441.3 R
YEAR	3821.0	2497.2	687.6	-135.5	336.0	435.9
% change from '86	2.9	1.9	5.1	-7.0	1.0	3.3
1988:1	3903.7	2548.8	696.7	-134.8	348.1	444.9
2	3924.7	2561.1	699.8	-131.9	350.1	445.6
3	3943.4	2569.4	704.7	-128.5	352.6	445.2
4	3970.2	2583.8	709.5	-122.3	353.1	446.1
YEAR	3935.5	2574.8	702.7	-129.4	351.0	445.4
% change from '87	3.0	3.1	2.2	-4.5	4.5	2.2
1989:1	4001.6	2601.9	713.4	-120.5	356.0	450.8
2	4012.8	2600.8	717.2	-118.5	359.6	453.7
3	4043.5	2621.7	719.5	-116.4	362.5	456.2
4	4064.3	2631.9	721.6	-113.7	365.2	459.3
YEAR	4030.6	2618.1	717.9	-117.3	360.8	455.0
% change from '88	2.4	1.7	2.2	-9.4	2.8	2.1

---

*Historical data.

R = Revised. P = Preliminary.

1.20 PRICES AND NOMINAL GNP

1.21 PRICES

See Tables 1.21 - page 11

THE CPI INCREASED A MEAGER .2% IN FEBRUARY, MAINLY DUE TO A FALL IN PRICES OF FOOD AND BEVERAGES, APPAREL, AND ENERGY.

Expect some increase in prices of these items in March. Such possible increases are viewed as temporary and do not affect KEDI's prediction for this year of moderately mild inflation with slight acceleration in 1989.

Producer prices fell .2% in February, and rose .4% in January. KEDI expects the March rise of around .6%, which will yield the annual rate of .5% for the quarter, mainly due to the expected surge in oil and food prices. However, excluding these two items, the underlying inflation rate will remain in the 4-4.5% range for the first quarter of this year.

Changes in oil and food prices are not considered fundamental since their ups and downs occur frequently.

1988
FORECAST
DATA

Percent Change
from
March 1988
Forecast

+	.16%	GNP
-	.02%	Pers. Cons. Expend.
-	.03%	Consumer Price Index
-	.09%	Producer Price Index
-	.17%	Federal Govt. Purch.
-	.19%	State Local Purch.

TABLE 1.21
PRICES

Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

INDICATOR	*---Indexes--*		*-------Price deflators--------*			
	Cons. price index n.s.a.**	Prod. price index n.s.a.**	Gross Nat'l Prod.	Pers. cons. expend.	Fed. govt. purch.	State local purch.
Unit	1967= 100	1967= 100	1982= 100	1982= 100	1982= 100	1982= 100
Year & Qtr.						
1986*	328.4	289.7	114.1	114.3	110.2	119.3
1987:1*	334.5	292.2	116.1	116.9	112.1	122.4
2*	338.8	295.6	117.1	118.3	114.1	123.8
3*	342.6	297.1	117.9	119.5	113.6	125.6
4*	345.6	297.7	118.7 R	120.7 R	111.9 R	126.9 R
YEAR	340.4	295.6	117.5	118.9	112.7	124.7
% change from '86	3.6	2.1	2.9	4.0	2.5	4.5
1988:1	348.2	305.1	120.1	122.0	113.4	127.2
2	351.6	310.5	121.0	123.8	115.7	129.0
3	354.9	314.2	122.5	124.5	117.5	131.6
4	358.1	318.3	123.6	125.6	119.4	133.2
YEAR	353.2	312.0	121.8	124.0	116.5	130.2
% change from '87	3.8	5.5	3.7	4.3	3.2	4.5
1989:1	362.5	322.5	124.0	126.8	121.3	133.0
2	366.3	327.9	125.1	128.4	122.5	134.6
3	370.1	322.2	128.2	132.9	123.8	136.7
4	376.1	337.2	130.3	134.5	125.4	138.9
YEAR	368.8	327.4	126.9	130.7	123.2	135.8
% change from '88	4.4	4.9	4.2	5.4	5.8	4.3

---

*Historical data. R = Revised. P = Preliminary.
**CPI: All Urban Consumers; PPI: Finished Goods.

1.22 NOMINAL GNP

See Table 1.22 - page 13

1988
FORECAST
DATA

Percent Change
from
March 1988
Forecast

+ 3.02%	Net Exports
+ 1.05%	State Local Purch.
+ .49%	GNP
+ .08%	Pers. Cons. Expend.
+ .31%	Gross Private Dom. Inv.
- .29%	Federal Govt. Purch.

THE THIRD REVISION OF NOMINAL GNP AND COMPONENTS FOR 1987:4 RESULTED IN FURTHER IMPROVEMENTS IN THE MAJORITY OF ITEMS.

Foreign trade remains a weak spot, however. Data for net exports has been revised slightly downward: the second estimate of of $-126.9 bil. resulted in the third estimate of $-124.3 bil., which is still not tolerable.

Merchandise trade data are not improving as fast as most economists, including KEDI anticipated. The January merchandise trade data are not too encouraging either. The trade gap grew slightly to $12.44 bil., though imports fell by 6%; however, exports dropped 10%.

Preliminary data for February indicate the trade gap will widen a bit further, despite expected rebound in exports.

The long-term outlook for the US foreign trade remains bright. Forecast data indicate a declining gap with Japan, UK, Germany, and newly-industrialized countries, notably Taiwan, Korea and Singapore.

The KEDI long-term outlook points to a tolerable level of merchandise deficits of $50-60 bil. not earlier than in 1990-91.

TABLE 1.22
NOMINAL GNP

Quarterly data are seasonally adjusted at annual rates.

	-----------Gross National Product---------------					
INDICATOR	Total	Pers. cons. expend.	Gross pvt. dom invest.	Net exports	Fed. govt. purch.	State local purch.
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	bil. $
Year & Qtr.						
1986*	4235.0	2799.8	671.0	-105.5	366.2	503.5
1987:1*	4377.7	2893.8	699.9	-112.2	366.9	529.3
2*	4445.1	2943.7	702.6	-118.4	379.6	537.6
3*	4524.0	3011.3	707.4	-123.7	382.1	546.9
4*	4607.4 R	3022.6 R	760.2 R	-124.3 R	388.9 R	559.9 R
YEAR	4488.5	2967.5	717.5	-119.7	379.4	543.4
% change from '86	6.0	6.0	6.9	13.4	3.6	7.9
1988:1	4688.3	3109.5	731.7	-121.7	394.7	565.9
2	4748.9	3170.6	732.9	-120.5	405.1	574.8
3	4830.7	3198.9	730.8	-116.4	414.3	585.9
4	4907.2	3245.3	732.9	-115.7	421.6	594.2
YEAR	4793.8	3181.1	732.1	-118.6	408.9	580.2
% change from '87	6.8	7.2	2.0	-.9	7.8	6.8
1989:1	4962.0	3299.2	736.4	-111.6	431.8	599.6
2	5020.0	3339.4	740.4	-112.8	440.5	610.7
3	5183.8	3484.2	746.8	-110.4	448.8	623.6
4	5295.8	3539.9	754.6	-106.3	458.0	638.0
YEAR	5120.8	3428.4	744.5	-110.3	444.8	618.0
% change from '88	6.8	7.8	1.7	-7.0	8.8	6.5

*Historical data. R = Revised. P = Preliminary.

1.30 EMPLOYMENT AND LABOR

See Table 1.30 - page 15

1988
FORECAST
DATA

Percent Change
from
March 1988
Forecast

+ .02%	Population
0.00%	Agriculture
- .01%	Non-Agri.
- .08%	Civilian Labor Force
- .40%	Unemployment rate
- .44%	Total Employed

IN GENERAL ECONOMIC THEORY, THE 6% UNEMPLOYMENT RATE FOR THE UNITED STATES IS CONSIDERED AS A FULL EMPLOYMENT LEVEL.

The unemployment rate fell under 6% last year and all indications are that it will stay well below this level through this year and next.

According to this theory of full employment higher wage rates and inflationary pressures from higher labor costs should have taken place--but haven't. Furthermore, KEDI does not expect it to happen since wage increases in current contracts and contracts currently being negotiated do not indicate any inflationary hikes.

ECONOMISTS SHOULD RETHINK THESE THEORIES AND DEFINITIONS.

Some data may be illustrative of expected future trends:

Average weekly initial claims for state unemployment (tho):

1988		
January	February	March
351	321	301p

Average weekly earnings (manufacturing, $)

1988		
January	February	March
412.9	409.9	412.3p

p = preliminary

TABLE 1.30
EMPLOYMENT & LABOR

Quarterly data are seasonally adjusted at annual rates.

INDICATOR	Population	Civil. labor force	*-------Employment-------*			Unemployment rate
			Total	Agricult.	Non-agric.	
Unit	mil.	mil.	mil.	mil.	mil.	%
Year & Qtr.						
1986*	241.5	117.8	109.6	3.2	106.4	7.04
1987:1*	242.9	119.2	111.2	3.2	108.1	6.67
2*	243.8	119.6	112.2	3.2	109.2	6.22
3*	245.0	120.0	112.9	3.2	109.7	5.98
4*	246.9	120.8 R	113.7 R	3.2	110.5 R	5.91 R
YEAR	244.7	119.9	113.1	3.2	109.9	6.20
% change from '86	1.3	1.8	1.7	0.0	3.3	-12.00
1988:1	247.9	121.4	114.5	3.2	111.3	5.71
2	249.6	122.0	115.1	3.2	111.9	5.63
3	250.4	122.7	115.8	3.2	112.6	5.64
4	251.5	123.5	116.6	3.2	113.4	5.61
YEAR	249.8	122.4	115.5	3.1	112.4	5.65
% change from '87	2.1	2.1	2.3	-3.1	2.2	-8.84
1989:1	253.9	124.0	117.0	3.2	113.8	5.63
2	254.3	124.8	117.7	3.2	114.5	5.72
3	255.1	125.5	118.2	3.2	115.0	5.82
4	256.0	126.1	118.8	3.2	115.6	5.80
YEAR	254.8	125.1	117.9	3.1	114.8	5.74
% change from '88	2.0	2.2	2.2	0.0	2.2	1.68

*Historical data. R = Revised P = Preliminary.

1.41 HOUSING

See Table 1.41 - Page 17

1988
FORECAST
DATA

Percent Change
from
March 1988
Forecast

+ 1.06%	Multiple Family Housing Starts
+ .90%	Permits Issued
+ .04%	Single Family Housing Starts
- .30%	Mobile Home Shipments
- .53%	1-Family Unit price New
- 2.60%	1-Family Unit price Existing

RECENTLY RELEASED DATA ON HOUSING CONFIRM KEDI'S PREDICTION THAT A REBOUND IN HOUSING IS UNDERWAY.

February housing starts rose to 1.494 mil. units (annual rate) from a revised 1.372 mil. units in January equallying an 8.9% increase.

Building permits rose 11.5% to annual rate of 1.402 mil. for the same period.

KEDI expects housing starts to continue strong this year in the single-family segment, while the apartment segment will remain sluggish, due mainly to persistent overbuilding.

KEDI does not share dire predictions of some economists who expect 1.4-1.5 mil. starts this year. On the contrary, KEDI's forecast for a good 1988 and even better 1989 is maintained.

TABLE 1.41
HOUSING

Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

INDICATOR Unit	Single family housing starts mil.	Multi-family housing starts mil.	Mobile home shipments mil.	Permits authorized mil.	1-Fam. unit price new** tho. $	1-Fam. unit price exist** tho. $
Year & Qtr.						
1986*	1.171 R	.679 R	.244	1.769	112.2 R	98.3 R
1987:1*	1.256	.539	.234	1.682	121.1	103.9
2*	1.142 R	.470 R	.227	1.536	126.8 R	105.8
3*	1.154 R	.468 R	.241	1.497	130.2 R	106.3 R
4*	1.091 R	.443 R	.230 R	1.431 R	133.3 R	106.1 R
YEAR	1.161	.480	.233	1.536	127.8	105.5
% change from '86	-.9	-29.3	-4.5	-13.1	13.9	7.3
1988:1	1.142	.411	.228	1.485	135.1	109.1
2	1.280	.442	.247	1.567	138.3	112.3
3	1.311	.491	.259	1.644	143.0	115.2
4	1.229	.475	.251	1.608	144.6	117.3
YEAR	1.240	.455	.246	1.576	140.2	113.5
% change from '87	6.9	-5.3	5.7	2.6	9.7	7.5
1989:1	1.161	.482	.232	1.484	145.3	119.1
2	1.294	.556	.245	1.693	148.8	121.2
3	1.389	.578	.282	1.886	150.4	123.5
4	1.282	.561	.277	1.859	153.0	131.6
YEAR	1.282	.544	.259	1.730	149.4	123.8
% change from '88	3.3	19.7	5.2	9.8	6.5	9.1

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*Historical data. R = Revised. P = Preliminary.

**Average. Not seasonally adjusted.

1.42 AUTOMOBILES

See Table 1.42 - page 19

1988
FORECAST
DATA

Percent Change
from
March 1988
Forecast

+ 5.41%	Total Light Truck Sales
+ 2.50%	Imported Car Sales
+ .49%	Total Car Sales
+ .34%	Domestic Car Sales
0.00%	Dealer Inventory
0.00%	Shipments

AS IN THE HOUSING SEGMENT OF THE ECONOMY, DATA IN THE AUTOMOBILE SEGMENT INDICATE THE START OF A REBOUND.

Late March data and data January and February show the first quarter of this year the best since 1985. Preliminary data for most of March point to strong results with passenger cars and light-duty trucks far above the comparable period a year ago.

Robust sales have prompted the Big Three U.S. automakers to substantially boost production schedules for the second quarter.

GM, Ford, and Chrysler now plan to build 1,830,000 cars in 1988:2 compared to 1,799,595 cars in the same quarter of 1987. Earlier this year, the same companies expected to build less care in 1988:2 than in 1987:2.

KEDI maintains it's forecast, published a year ago that the automobile cycle reached the trough at the end of 1987, and will be winding up in 1988 and continue its upward trend in the following year.

TABLE 1.42
AUTOMOBILES

Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

INDICATOR	Total car sales	Car sales dom.	Car sales imp.	Dealer car inventory n.s.a. **	Factory car shipments	Total light truck sales
Unit	mil.	mil.	mil.	mil.	mil.	mil.
Year & Qtr.						
1986*	11.5	8.2	3.2	1.5	7.5	3.7
1987:1*	9.5	7.0	2.8	1.9	8.0	3.4
2*	10.0	6.8	3.0	1.8	8.0	3.8
3*	11.5	7.0	3.6	1.4	5.8 R	4.1
4*	10.1 R	6.8 P	3.3 P	1.9 R	7.3 R	3.9 R
YEAR	10.3	6.9	3.2	1.9	7.3	3.8
% change from '86	-10.9	-15.9	-.8	26.7	-3.0	2.7
1988:1	10.1	7.1	3.0	1.6	7.6	3.8
2	10.2	7.2	3.0	1.7	7.7	3.9
3	11.0	7.8	3.2	1.8	8.1	4.1
4	10.6	7.7	3.1	1.6	7.8	3.8
YEAR	10.3	7.3	3.1	1.6	7.8	3.9
% change from '87	1.0	5.7	-3.1	-15.8	7.2	2.6
1989:1	10.0	7.0	3.0	1.7	7.6	3.7
2	10.5	7.5	3.0	1.8	7.5	3.9
3	11.0	7.9	3.1	1.7	7.9	4.2
4	10.7	7.6	3.1	1.6	7.7	3.8
YEAR	1.8	-1.2	3.0	1.6	7.7	3.9
% change from '88	1.0	.1	-.8	0.0	-1.6	0.0

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*Historical data. R = Revised. P = Preliminary.

**End of period data.

1.50 BUDGETS

See Table 1.50 - page 21

1988
FORECAST
DATA

Percent Change
from
March 1988
Forecast

+ 3.14%	State Surplus/ Deficit
+ .21%	Corporate Profit Tax Accrued
+ .07%	Federal Income Tax
- .11%	State Income Tax
- .24%	State Local Corp. Tax Accrued
- 1.49%	State Surplus/ Deficit

FORECAST DATA FOR FEDERAL BUDGET DEFICITS HAVE BEEN INCREASED COMPARED TO THE MARCH FORECAST.

It is becomming increasingly clear that last year's budget accord between the Administration and Congress concerning the Federal budget deficit allows for a higher deficit this year than envisioned in the original Gramm-Rudman-Hollings Act.

That means that for the next fiscal year, the new Administration will have to make drastic cuts in the Federal budget much more serious than previously anticipated.

KEDI is becoming sceptical as to whether budget cuts of such magnitudes will be handleable.

Compared to the March forecast, data for major Federal and State and Local receipts and the State and Local surpluses have been increased somewhat commensurate with the overall increased expected growth of the economy.

TABLE 1.50
FEDERAL, STATE AND LOCAL BUDGETS

Quarterly data are seasonally adjusted at annual rates.

INDICATOR	FEDERAL			STATE AND LOCAL		
	Income taxes	Corp. profits tax accru.	Surplus /deficit	Income taxes	Corp. profits tax accru.	Surplus /deficit
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	bil. $
Year & Qtr.						
1986*	363.0	83.7	-204.7	149.3	21.3	56.8
1987:1*	381.5	103.0	-170.5	154.6	25.0	41.0
2*	415.6	107.9	-139.2	162.3	26.4	50.6
3*	404.3	114.5	-135.8	161.4	28.4	46.5
4	413.5 R	115.2 R	-149.3 P	165.9 R	29.1 R	51.8 P
YEAR	403.7	110.2	-148.7	161.1	27.2	47.5
% change from '86	11.2	31.6	-27.4	7.9	27.8	-16.4
1988:1	420.9	114.4	-142.0	168.4	30.2	53.0
2	429.5	120.8	-138.5	170.2	31.2	54.0
3	436.4	121.0	-136.2	176.0	32.1	55.1
4	448.0	124.0	-135.7	181.0	31.8	56.2
YEAR	433.7	120.0	-138.1	173.9	31.3	54.6
% change from '87	7.4	9.0	-7.1	8.0	15.1	15.0
1989:1	453.2	125.0	-128.6	183.6	32.1	58.1
2	458.5	127.3	-119.4	185.9	32.4	59.2
3	467.4	129.9	-113.3	188.7	33.2	60.1
4	473.8	132.9	-110.5	192.2	34.5	60.8
YEAR	463.2	128.8	-118.0	187.6	33.0	59.5
% change from '88	6.8	7.3	-14.6	7.9	5.5	9.1

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*Historical data. R = Revised. P = Preliminary.

1.60 INCOME

See Table 1.60 - page 23

PERSONAL INCOME IN FEBRUARY ROSE TO $3.914 TRILLION FROM A REVISED $3.880 TRILLION IN JANUARY. IT ROSE BY.9%, FOLLOWING A RISE OF .3% IN JANUARY.

Wage and salary income grew .7% after a .6% in January. Data for Personal Disposable income are even more encouraging with a .6% rise in January and 1.1% in February, reflecting positive impacts of lower income tax rates effective January this year. No declines or levelling off of these aggregates are forecast for this and the following years. Outlook for profits is also bright. Significant gains in a majority of industries are forecast:

PRETAX CORPORATE PROFITS WITH IVA
(bil.$, domestic industries)

	1986	1987	1988
Primary metals	-1.8	.6	1.7
Fab. metal prod.	4.1	4.8	7.4
Machinery (nonelec.)	3.9	5.6	8.3
Elect. machinery	4.3	4.3	7.3
Motor vehicles	5.9	5.2	2.8
Other durable mfg.	14.7	17.0	20.8
Food and products	8.7	9.3	11.8
Chemicals and prod.	6.7	9.7	12.9
Petroleum and coal products	5.4	10.0	16.0
Other	17.6	20.6	23.2
Transportation and Utilities	42.4	38.4	37.4
Trade	52.1	50.6	55.4
Other nondurable manufacturing	17.2	17.5	18.4
Financial, except Fed. Reserve	10.1	11.0	10.8
Foreign	31.2	34.0	41.8

1988
FORECAST
DATA

Percent Change
from
March 1988
Forecast

+ .27%	Personal Savings
- .04%	Personal Income
- .05%	Personal Disp. Income
- .06%	Comp. of Employees
- .79%	Corp. After Tax Earnings
- 1.29%	Average Weekly Earnings

TABLE 1.60
INCOME

Quarterly data are seasonally adjusted at annual rates.

INDICATOR	Pers. income	Pers. disp. income	Comp. of empl.	Corp. after tax profits	Pers. saving	Avg. week earn.
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	$
Year & Qtr.						
1986*	3534.3	3022.1	2504.9	126.8	130.6	382.0
1987:1*	3662.0	3125.9	2589.9	129.0	138.4	391.2
2*	3708.6	3130.6	2623.4	134.5	93.2	403.1
3*	3761.0	3195.3	2663.5	141.9	88.8	406.6
4*	3854.4 R	3275.0 R	2739.8 R	144. R	155.7 R	419.1 P
YEAR	3746.5	3181.7	2654.2	137.4	119.0	405.0
% change from '86	6.0	5.3	6.0	8.4	-8.9	6.0
1988:1	3924.1	3334.8	2780.0	153.0	115.3	411.6
2	3981.6	3381.9	2807.4	155.1	109.2	414.4
3	4011.7	3399.3	2890.3	157.0	111.6	418.7
4	4096.6	3467.6	2938.0	159.1	115.9	421.5
YEAR	4003.5	3395.9	2853.9	156.1	113.0	416.6
% change from '87	6.9	6.7	7.5	13.6	-5.1	2.9
1989:1	4152.8	3516.0	2978.5	165.4	114.9	425.3
2	4210.0	3565.6	2980.4	170.1	116.7	426.9
3	4354.9	3698.8	3050.1	177.6	121.5	430.1
4	4434.9	3768.9	3082.3	180.[illegible]	124.8	434.5
YEAR	4288.1	3637.3	3022.8	173.3	119.5	429.2
% change from '88	7.1	7.1	5.9	11.1	5.7	3.0

*Historical data. R = Revised. P = Preliminary.

- 1.70 MONEY AND CREDIT

See Table 17.0 - page 25

1988
FORECAST
DATA

Percent Change
from
March 1988
Forecast

+	.77%	Large Denom. Time Deposits
+	.47%	Consumer Install. Credit
+	.26%	Consumer & Demand Deposits
+	.19%	Mortg. at savings inst'ns
+	.08%	Time Deposits
-	.07%	Comm. & Indust. Loans at Banks

KEDI'S ANTICIPATION OF THE FEDERAL RESERVE POLICY THIS YEAR REMAINS UNCHANGED: NO PUSHING OF INTEREST RATES BUT KEEPING THEM AT PRESENT LEVELS AND ALLOWING SOME SMALL DECLINES IN THE SECOND HALF OF THIS YEAR, WITH SLIGHT TIGHTENING IN THE MONEY SUPPLY.

In view of the absence of any significant indications of rising inflation and rising interest rates overseas, it is hard to believe that the Fed will push interest rates up. It is further anticipated that, on the other hand, the Fed will be more restrictive in monetary policy allowing monetary aggregates to increase at slower rates compared to their percipitous growth in previous years.

TABLE 1.70
MONEY & CREDIT

Data for "Currency and demand deposits, M1", and "Time deposits, adjusted, M2" are averages of daily figures; other data are end of period figures.

INDI-CATOR	Currency and demand deposits M1, s.a.	Time deposit adjust. M2,s.a.	Cons. instal. credit n.s.a. **	Comm.& indus. loans at banks s.a.	Large denom. time dep. s.a.	Mortg. at sav. inst'n. ** n.s.a.
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	bil. $
Year & Qtr.						
1986*	667.4	2687.3	577.8	517.6	439.2 R	2568.7 R
1987:1*	732.3	2830.5	579.9	520.4	445.6 R	2665.2 R
2*	744.4	2849.4	587.9	526.3	458.6 R	2765.1 R
3*	745.9	2869.5	602.6 R	532.7	465.3 R	2831.4 R
4*	753.3	2898.4	612.6	540.1	484.7	2906.4
YEAR	744.0	2861.9	612.6	540.1	484.7	2906.4
% change from '86	11.5	6.5	6.0	5.3	10.4	13.1
1988:1	763.2 P	2874.4 P	616.9 P	544.2 P	492.8 P	2945.9 P
2	766.3	2935.5	623.2	546.7	498.4	2997.1
3	774.8	3002.4	632.8	550.4	501.7	3079.4
4	785.7	3069.6	645.9	557.8	513.6	3136.5
YEAR	772.5	2970.5	645.9	557.8	513.6	3136.5
% change from '87	3.8	3.8	5.4	3.3	6.0	7.9
1989:1	791.3	3119.4	650.2	562.3	516.7	3219.0
2	804.6	3162.1	658.3	563.3	521.4	3289.4
3	814.3	3219.8	680.0	565.2	527.9	3378.6
4	822.6	3278.1	688.6	570.2	544.6	3458.2
YEAR	808.2	3194.8	688.6	570.2	544.6	3458.2
% change from '88	4.6	7.6	6.6	2.2	6.0	10.3

*Historical data. n.s.a: not seasonally adjusted.
s.a.: seasonally adjusted at annual rates.
R = Revised. P = Preliminary.

1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES

See Table 1.80 - page 27

FORECAST OF INTEREST RATES FOR 1988 AND 1989 REMAINS UNCHANGED: LOW RATES THIS YEAR WITH A SOME SLIGHT DECLINES IN THE SECOND HALF, AND SOME SMALL INCREASES THROUGHOUT 1989.

It is anticipated that the Federal Reserve will not be pushing up interest rates this year:

* Interest rates differentials between the U.S. and key foreign countries, this year and next will remain wide enough so as not to divert investors from U.S. markets.

* Increases in interest rates would negatively impact many U.S. industries, notably housing and automotive, as well as financial markets.

* Forecast data indicate that neither the consumer nor the business inflation will be increasing to such an extent as to justify higher interest rates.

1988 FORECAST DATA

Percent Change from March 1988 Forecast

+ 3.07%	Conv. Mortg. Rate
+ 1.68%	20 Year Govt. Bond Yield
+ 1.56%	Aaa Corp. Bond Rate
+ .90%	Prime Rate
0.00	Treas. Bills 3 mo. Yield
- .46%	S & P's 500 Avg.

TABLE 1.80
INTEREST RATES, YIELDS & SECURITIES PRICES

Quarterly averages of monthly figures.

INDICATOR Unit	Treas. bills 3 mo. yield %	Prime rate %	Conv. mortg rate %	Aaa corp. bond rate %	30 yr. Govt. bonds yield %	S & P's 500 Avg 1941-43 = 10
Year & Qtr.						
1986*	5.97	8.33	9.82	9.02	7.80	236.34
1987:1*	5.53	7.50	9.06	8.37	7.87	279.30
2*	5.66	8.05	8.98	9.17	8.53	293.27
3*	6.03	8.40	9.12	9.76	9.39	319.37
4*	6.00 R	8.87 R	9.46 R	10.21 R	9.23 R	255.37 R
YEAR	5.80	8.21	9.16	9.38	8.76	286.83
% change from '86	-2.8	-1.5	-6.8	4.0	12.2	21.4
1988:1	5.88	8.50	9.36	10.16	8.96	254.27
2	5.76	8.45	9.08	9.94	8.74	269.50
3	5.70	8.38	8.96	9.88	8.54	279.48
4	5.78	8.29	8.84	9.63	8.25	283.17
YEAR	5.78	8.40	9.06	9.90	8.62	271.61
% change from '87	-.4	2.4	-1.0	5.6	-1.5	-5.3
1989:1	6.01	8.45	8.65	9.49	8.36	282.33
2	6.08	8.57	9.04	9.58	8.49	284.59
3	6.14	8.82	9.21	9.68	8.76	294.87
4	6.28	8.87	9.48	9.84	8.91	300.51
YEAR	6.13	8.68	9.10	9.65	8.63	290.57
% change from '88	6.0	3.2	.4	-2.6	.1	7.0

*Historical data. R = Revised. P = Preliminary.

2.0 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, comparisons of accuracy of the unemployment rate in 1987:4 has been selected. Actual number is in the Survey of Current Business, March 1988 issue, blue pages (U.S. Department of Commerce, Washington, D.C., monthly). Forecast data are in Business Week, December 29, 1987/January 5, 1987 issue, p. 63.

TABLE 2.0

COMPARISONS OF ACCURACY OF PREDICTIONS
(Unemployment rate, % of civilian labor force, 1987:4)
Actual figure: 5.9%

Forecaster	Date of Forecast	Forecast %	Accuracy (actual - forecast)
Univ. of Calif. at LA	12/86	6.4	- .5
Fairmodel, Economia	12/86	7.3	-1.4
RSQE, Univ. of Michigan	12/86	6.8	- .9
Kent Economic and Development Inst., Inc.	12/86	6.9	-1.0
Wharton Econometrics	12/86	6.8	- .9
Data Resources	12/86	6.7	- .8
Evans Economics	12/86	7.1	-1.1
Chase Econometrics	12/86	6.8	- .9
Lawrence H. Meyer & Assoc.	12/86	7.2	-1.3
Merrill Lynch Economics	12/86	7.0	-1.1
Georgia State Univ.	12/86	6.7	- .8

3.00 HISTORICAL DATA SOURCES

For reader's convenience listed below are sources of historical data series for the forecasts appearing in the Survey. The first column of the following table refers to the table in this Survey, the second column to the name of forecast series, and the third column identifies the source of historical data. The sources are: **Survey of Current Business** referred to as SCB (monthly, U. S. Department of Commerce, Washington, D.C.), **Federal Reserve Bulletin,** FRB, (Board of Governors of the Federal Reserve System, Washington, D.C. monthly), **Index of Industrial Production,** G.12.3 Release, IIP, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly.)

TABLE 3.00

HISTORICAL DATA SOURCES

Table Number	Data Series	Source
1.11 Selected Indicators of Real Growth I.	Gross national product, 1982 $	SCB, Table 1.2
	Index of industrial production	IIP, p. 2.
	Unemployment rate	SCB, Blue pages
	Capacity utilization rate	FRB, Table 2.11
	Private housing starts	SCB, Blue pages
	Car sales	SCB, Blue pages
1.12 Selected Indicators of Real Growth II.	Personal Cons. expend: Durables,	SCB, Table 1.1
	Nondurables	SCB, Table 1.1
	Services	SCB, Table 1.1
	Retail sales: Total	SCB, Blue pages
	Durables	SCB, Blue pages
	Nondurables	SCB, Blue pages
1.12 Real GNP	Gross national product, 1982 $	SCB, Table 1.2
	Personal consumpt. expenditures	SCB, Table 1.2
	Gross private dom. investment	SCB, Table 1.2
	Net exports	SCB, Table 1.2
	Federal purchases	SCB, Table 1.2
	State and local purchases	SCB, Table 1.2
1.21 Prices	Consumer price index	SCB, Blue pages
	Producer price index	SCB, Blue pages
	Implicit price deflators: GNP	SCB, Table 7.1
	Personal consumpt. expenditures	SCB, Table 7.1
	Federal purchases	SCB, Table 7.1
	State and local purchases	SCB, Table 7.1
1.22 Nominal GNP	Gross national product	SCB, Table 1.1
	Personal consumpt. expenditures	SCB, Table 1.1
	Gross private dom. investment	SCB, Table 1.1
	Net exports	SCB, Table 1.1
	Federal purchases	SCB, Table 1.1
	State and local purchases	SCB, Table 1.1

(Table 3.00 continues on the following page.)

TABLE 3.00

HISTORICAL DATA SOURCES (CONTINUED)

Table Number	Data Series	Source
1.30 Employment and Labor	Population	SCB, Blue pages
	Civilian labor force	SCB, Blue pages
	Employment	SCB, Blue pages
	Agriculture	SCB, Blue pages
	Non-agriculture	SCB, Blue pages
	Unemployment rate	SCB, Blue pages
1.41 Housing	Single-family housing starts	SCB, Blue pages
	Multifamily housing starts	SCB, Blue pages
	Mobile home shipments	SCB, Blue pages
	Permits authorized	SCB, Blue pages
	1-family unit price, new	FRB, Table 2.14
	1-family unit price, existing	FRB, Table 2.14
1.42 Autos	Passenger cars: Total sales	SCB, Blue pages
	Domestic	SCB, Blue pages
	Imported	SCB, Blue pages
	Dealers inventories	SCB, Blue pages
	Factory shipments	SCB, Blue pages
	Light-duty truck sales	SCB, Blue pages
1.50 Federal State & Local Budgets	Federal govt: Income taxes	SCB, Table 3.2
	Corporate profit tax accruals	SCB, Table 3.2
	Surplus/Deficit	SCB, Table 3.2
	State & local govt:Income taxes	SCG, Table 3.3
	Corporate profit tax accruals	SCG, Table 3.3
	Surplus/Deficit	SCB, Table 3.3
1.60 Income	Personal income	SCB, Table 2.1
	Personal disposable income	SCB, Table 2.1
	Compensation of employees	SCB, Table 1.11
	Corporate after tax profits	SCB, Table 1.11
	Personal saving	SCB, Table 2.1
	Average weekly earnings	SCB, Blue pages
1.70 Money and Credit	Currency and demand deposits, M1	FRB, Table 1.21
	Time deposits, adjusted, M2	FRB, Table 1.21
	Consumer installment credit	FRB, Table 1.55
	Commercial and industrial loans	FRB, Table 1.23
	Large denomination time deposits	FRB, Table 1.21
	Mortgages at S&L Associations	FRB, Table 1.54
1.80 Interest Rates, Yields, & Securities Prices	Treasury bills (3 mo) yield	FRB, Table 1.35
	Prime rate	FRB, Table 1.33
	Conventional mortgage rate	FRB, Table 1.53
	Aaa corporate bonds rate	FRB, Table 1.35
	20 years government bonds yield	FRB, Table 1.35
	Standard & Poor's 500 average	FRB, Table 1.36

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KEDI ECONOMIC SURVEY

May 1, 1988

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SOURCES:

U.S.Department of Commerce first estimate of 1988:1, National Income and Product data, April 20, 1988.

Board of Governors of the Federal Reserve System release of the Index of Industrial Production, April 1988.

The latest available data on prices, employment, industrial and financial developments.

0.00 INTRODUCTION

0.01 EXECUTIVE SUMMARY

HIGHLIGHTS

Real Growth

Data on the U.S. economy demonstrate that the economy will continue expanding this year and in 1989.

Prices

Forecast data do not point to any significant revival of inflation.

Employment & Labor

The U. S. unemployment rate is below 6% since last year and is expected to fall to around 5.5% with no inflation.

Housing

Preliminary data for housing starts in April point to a flatness in single-family units.

Automobiles

Recently released data confirm that the automobild industry is in the expansion phase of the cycle.

Budgets

The Gramm-Rudman Federal Deficit target is $100 bil in FY 1990, at least $50 bil. below the expected level in FY 1989.

Income

First estimate of 1988:1 income underscores a significant increase in personal savings.

Money & Credit

KEDI does not expect significant changes to tighten credit conditions after the Fed's Open Marketing Committee May meeting.

Interest Rates, Yields & Securities Prices

Most major indexes that measure the performance of the stock market indicate a longer lasting flatness in the market.

0.02 ASSUMPTIONS

	Last Update
1. In 1988, the weighted price of oil will increase slightly as compared to 1987. It will continue increasing in the 1989-1990 period.	April 1986
2. A longer-lasting relaxation in monetary and credit policies will last throughout 1988. More tightening is not expected earlier than in 1989.	February 1988
3. In 1988 and 1989 good crops in all main producing countries are anticipated.	November 1987
4. Foreign trade with China will expand in 1988 and following years.	May 1987
5. Average rates of growth in 1985-1990 in major industrial countries are anticipated: West Germany 3.0%; Italy 2.1% reat Britain 2.1%; France 2.0%; Japan 3.1%; Canada 2.6%	September 1987
6. No drastic changes in international relationships are anticipated.	Permanent Assumption

0.03 FORECAST HIGHLIGHTS

* Table 0.00 on page 3 shows forecast data of selected indicators of the May 1988 KEDI forecast.

* In 1988 solid growth is expected. It will slow down a bit in the first half of 1989.

* The upward trend will continue throughout 1990-1991.

* Forecast data for 1988-1991 do not point to recession or major downturn.

* In 1988 interest rates will remain, in average, at low levels throughout most of the year. Some increases are anticipated in 1989.

* Federal budget deficits will keep declining in 1988 and the followiny years.

* The 1987 export-import gap will start closing to a more acceptable level.

TABLE 0.00

KEDI FORECAST HIGHLIGHTS

Data for 1987, 1988 and 1989 are on pages indicated below.

Indicator	Unit	1986	1990	1991	1992
Gross national	bil. 82$	3713.3	4160.5	4264.5	4375.4
product, p. 5	% change	2.9	2.9	2.5	2.6
Index of indust.	1977=100	125.1	143.3	148.0	153.0
prod., p. 5	% change	1.0	3.2	3.3	3.4
Capacity	%	79.6	82.9	81.6	81.2
utiliz., p. 5	% change	-1.0	.2	-1.6	-.5
Unemployment	%	7.0	5.7	6.5	6.4
rate, p. 5	% change	-3.1	.6	-1.2	-1.1
Private housing	mil.units	1.8	1.9	1.9	1.9
starts, p. 5	% change	-4.2	4.7	-2.0	3.5
Car sales,	mil.units	11.5	11.1	11.2	11.6
p. 5	% change	3.2	3.9	1.0	4.0
Implicit GNP	1982=100	114.5	131.3	136.1	141.1
price def.,p.11	% change	2.6	3.5	3.6	3.7
Consumer Price	1967=100	109.6	125.6	129.6	134.3
Index, p. 11	% change	1.8	3.9	3.2	3.6
Prod.Price Index	1967=100	103.2	119.6	125.0	129.7
(fin.goods),p.11	% change	-1.6	4.5	4.5	3.8
Federal Deficit	bil. $	-220.0	-107.5	-87.1	-69.9
p. 21	% change	8.2	-10.4	-19.0	-19.7
Personal Income	bil. $	3534.3	5003.2	5348.4	5744.2
p. 23	% change	5.8	7.8	6.9	7.4
Prime Rate	%	8.3	8.8	9.4	10.2
p. 27	% change	-11.6	-3.0	7.5	8.0
Mortgage Rate	%	9.8	9.7	9.4	9.6
p. 27	% change	-11.7	6.0	-2.7	1.8
Currency+demand	bil. $	673.2	856.7	913.3	975.4
deposits , p. 25	% change	13.4	6.0	6.6	6.8
Commercial+ind.	bil. $	517.6	588.0	560.4	3490.0
loans, p. 25	% change	5.3	3.0	2.9	2.1
Raw steel	mil.sh.tons	87.4	90.1	90.8	91.3
production	% change	-.1	.4	-.8	.4
Electric power	mil.kw-hr	2614	3355.8	3342.8	3499.6
production	% change	6.0	3.8	3.7	4.7
Bituminous coal	mil.sh.tons	872	936	973.3	984.1
production	% change	-.1	1.1	1.3	1.5
Crude oil	avg. daily bbl.	3261	2361	2371.7	2426.2
output	% change	.8	2.1	2.2	2.3
Retail sales	bil. $	1454.4	1866.2	1995.0	2134.6
p. 7	% change	6.0	7.2	6.9	7.0

Numbers in "% change" rows show percent changes over the previous year.

1988
FORECAST
DATA

Percent Change
from
April 1988
Forecast

+ .48%	Autos
+ .21%	GNP
+ .07%	Index. Indus. Prod.
- .09%	Capac. Util.
- 1.65%	Private Housing Starts
- 3.85%	Unemployment

1.10 REAL GROWTH, CONSUMER SPENDING, AND RETAIL SALES

1.11 REAL GROWTH

See Table 1.11
Page 5

DATA ON THE U.S. ECONOMY DEMONSTRATE THAT THE ECONOMY WILL CONTINUE EXPANDING THIS YEAR AND IN 1989:

- Unemployment rate dropped to its lowest level in the past decade.
- Export orders for manufacturing kept increasing. The world economy is getting healthier and is developing a hearty appetite for American goods.

Recently, the Organization for Economic Cooperation and Development, raised its forecast of the rate of growth of economies of its 24 member countries in 1988 to 3%, compared to 2.25% in December 1987.

In the past five years, economic doomsayers having prediced a recession which had not occurred, usually moved their "recession" as coming sometime in the near or distant future and then forgot to talk about it. Now the situation is a bit different. Doomsayers who predicted the start of the recession and almost the "end of the world" for the first and second quarters of this year , do not talk about it any more and do not predict any downturn in the near or distant future.

TABLE 1.11
SELECTED INDICATORS I.

Quarterly data are seasonally adjusted at annual rates.

INDICATOR	GNP	Index of ind. prod.	Unemployment	Capacity util'n rate	Private housing starts	Auto sales
Unit	$82 bil.	1977=100	%	%	mil.	mil.
Year & Qtr.						
1986*	3713.3	125.1	7.04	79.6	1.750	11.5
1987:1*	3772.2	126.9	6.67	80.0	1.822	9.5
2*	3795.3	128.2	6.22	80.5	1.612	10.0
3*	3835.9	130.9	5.98	81.4	1.623	11.5
4*	3880.8	133.2	5.91	82.3	1.534	10.1 R
YEAR	3821.1	129.8	6.20	79.6	1.648	10.3
% change from '86	2.9	3.8	-12.0	0.0	-5.8	-10.7
1988:1	3902.6 P	134.2 P	5.73 P	82.6 P	1.561 P	10.1 P
2	3935.7	135.4	5.36	82.8	1.672	10.3
3	3953.7	136.4	5.30	82.9	1.791	11.0
4	3982.4	136.8	5.34	83.0	1.664	10.8
YEAR	3943.6	135.7	5.43	82.8	1.672	10.6
% change from '87	3.2	4.5	-12.3	4.1	1.5	2.7
1989:1	4012.6	137.3	5.43	82.9	1.642	10.0
2	4025.7	138.9	5.62	82.8	1.841	10.6
3	4056.4	139.2	5.82	82.9	1.967	11.2
4	4078.3	139.9	5.80	82.4	1.835	10.8
YEAR	4043.2	138.8	5.67	82.8	1.821	10.7
% change from '88	2.5	2.3	4.3	-.1	8.9	.9

*Historical data.
R = Revised. P = Preliminary.

1.12 CONSUMER SPENDING AND RETAIL SALES

See Table 1.12 - page 7

1988
FORECAST
DATA

Percent Change from April 1988 Forecast

+ .47%	Retail Sales Nondurable
+ .34%	Retail Sales Total
+ .14%	Retail Sales Durable
- .45%	Pers. Con. Exp. Durable
- .54%	Pers. Con. Exp. Services
- .68%	Pers. Con. Serv. Nondurable

RETAIL SALES FORECASTS POINT TO MODERATE GROWTH THIS YEAR AND A BIT OF SLOWING DOWN IN 1989, MAINLY IN SALES OF NONDURABLES, WHILE SALES OF DURABLES ARE EXPECTED STRONGER THAN IN 1988, MAINLY DUE TO INCREASES IN SALES OF MOTOR VEHICLES AND PARTS, HOUSEHOLD APPLIANCES AND BUILDING MATERIALS.

Data on retail sales in this year released so far, do not show a superb performance of retailers. However, forecast data show significant improvements in the second and following quarters. Generally, in retail sales, the first quarter is smaller and not significant in terms of the full year.

The U.S. industry is operating at the highest level of capacity utilization in more than eight years and indications are that it will operate at 84-85% throughout this year.

Industrial production is expected to keep increasing significantly in April and the following months, lead by business equipment and other capital goods and products for export.

The monthly index of the National Association of Purchasing Managers rose 1.6 percentage points in April to 54.9%--the 21st consecutive month when the index topped 50%.

TABLE 1.12

CONSUMER SPENDING AND RETAIL SALES

Quarterly data are seasonally adjusted at annual rates.

	*--Personal Cons. Expend.-**			------Retail Sales-------*		
INDICATOR	Durables	Nondurables	Services	Total	Durables	Nondurables
Unit	bil.$	bil.$	bil.$	bil.$	bil.$	bil.$
Year & Qtr.						
1986*	402.4	939.4	1458.0	1454.4	568.1	888.3
1987:1*	396.1	969.9	1527.7	1483.2	563.5	926.8
2*	409.0	982.1	1552.6	1515.6	567.1	948.5
3*	436.8	986.4	1588.1	1562.7	581.9	980.8
4*	413.0	993.1	1616.5	1573.6	595.8	984.4
YEAR	413.7	982.9	1571.2	1533.8	577.1	960.1
% change from '86	2.8	4.6	7.8	5.5	1.6	8.1
1988:1	425.7 P	993.9 P	1649.0	1541.2 P	589.8 P	951.4 P
2	433.0	1016.6	1710.9	1614.8	602.8	1012.0
3	447.6	1030.4	1706.8	1648.9	626.9	1022.0
4	456.9	1050.1	1731.0	1665.7	641.6	1024.1
YEAR	440.8	1022.8	1699.4	1617.7	615.3	1002.4
% change from '87	6.5	4.1	8.2	5.5	6.6	4.4
1989:1	459.9	1065.2	1766.4	1697.6	619.9	1077.7
2	469.3	1080.3	1798.3	1711.5	637.6	1073.9
3	476.9	1090.9	1920.3	1764.8	666.3	1098.5
4	484.4	1102.5	1966.5	1789.6	689.9	1099.7
YEAR	472.6	1084.7	1862.9	1740.9	653.4	1087.4
% change from '88	7.2	6.1	9.6	7.6	6.2	8.5

* Historical data. R = Revised. P = Preliminary.

1.13 REAL GNP

See Table 1.13
Page 9

THE U. S. DEPARTMENT OF COMMERCE ESTIMATE OF 1988:1 REAL GNP POINTS TO 2.8% GROWTH OVER THE LAST QUARTER OF 1987.

KEDI anticipates that the second estimate will produce even more favorable data: The first GNP estimates are based on fairly incomplete data for foreign trade, actually in this case on data on exports and imports in January and February of this year. Data for foreign trade in March show a significant increase in exports and levelling off imports hence the second estimate that will incorporate the March foreign trade data, will boost the GNP figure up, possible in the neighborhoof of the 3% growth.

First quarter 1988 estimates of GNP underline positive trends in the economy:

Compared to data for 1987:4, the 1988:1 data are more proportionate:
* Lower foreign trade gap
* Lower Federal expenditures on goods and services
* Healthy increase in business capital outlays.
* Moderate gains in state and local spending and personal consumption spending.
* Moderate increase in inventories

Last but not least: the 2.8% growlth--any economist NOW agrees, that there is fairly good expansion in the economy. Where are dire prophecies of doomsayers who steadfastly, in December and even in January predicting the recession taking place this quarter?

1988
FORECAST
DATA

Percent Change
from
April 1988
Forecast

+ 5.61%	Gross Private Dom. Inv.
+ .21%	GNP
- .32%	State Local Purch.
- .45%	Pers. Cons. Expend.
- 1.78%	Net Exports
- 5.89%	Federal Govt. Purch.

TABLE 1.13
REAL GNP

Quarterly data are seasonally adjusted at annual rates.

INDICATOR	Gross National Product					
	Total	Pers. cons. expend.	Gross pvt.dom. investm.	Net exports	Fed. govt. purch.	State local purch.
Unit	$82 bil.	$82 bil.	$82 bil.	$82 bil.	$82 bil.	$82 bil.
Year & Qtr.						
1986*	3713.3	2450.5	654.0	-145.8	332.5	422.1
1987:1*	3772.2	2475.9	671.8	-135.2	327.3	432.3
2*	3795.3	2487.5	673.7	-132.7	332.6	434.4
3*	3835.9	2520.7	681.9	-138.4	336.3	435.4
4*	3880.8	2504.6	723.1	-135.8	347.6	441.3
YEAR	3821.0	2497.2	687.6	-135.5	336.0	435.9
% change from '86	2.9	1.9	5.1	-7.0	1.0	3.3
1988:1	3902.6	2528.2 P	738.4 P	-132.2 P	325.3 P	442.9 P
2	3935.7	2552.9	739.8	-130.9	330.3	443.6
3	3953.7	2558.1	743.7	-125.0	332.6	444.3
4	3982.4	2578.0	746.5	-120.3	333.1	445.1
YEAR	3943.6	2554.3	742.1	-127.1	330.3	444.0
% change from '87	3.2	2.3	7.9	-6.2	-1.7	1.9
1989:1	4012.6	2595.8	750.4	-118.5	336.1	448.8
2	4025.7	2607.4	753.2	-114.5	329.0	450.6
3	4056.4	2624.6	757.5	-110.4	331.5	453.2
4	4078.3	2641.9	760.4	-108.7	329.4	455.3
YEAR	4043.2	2875.7	755.4	-113.0	331.5	452.0
% change from '88	2.5	12.6	1.8	-11.1	.4	1.8

*Historical data.
R = Revised. P = Preliminary.

1.20 PRICES AND NOMINAL GNP

1.21 PRICES

See Tables 1.21 - page 11

1988
FORECAST
DATA

Percent Change
from
April 1988
Forecast

+ .65%	Federal Govt. Purch.
+ .48%	State Local Purch.
0.00%	Consumer Price Index
0.00%	Producer Price Index
- .14%	GNP
- .14%	Pers. Cons. Expend.

FORECAST DATA DO NOT POINT TO ANY SIGNIFICANT REVIVAL OF INFLATION. FACTORS THAT WILL KEEP INFLATION IN CHECK ARE EXPECTED TO EXERCISE THEIR EFFECTS THROUGHOUT THIS YEAR AND IN 1989.

Wage increases under existing contracts and expected contracts in negotiations are in the neighborhood of 1.5-2.0%; world prices of raw materials are expected to increase 1.3-1.5% this year and the next year; forecasts of prices of U.S. agriculture products hover around 1.5% increase this year and 1.5-2.0% increase in 1989, prices of products of industries working now, and expected to work in 1989 on 80-90% of capacity utilization, are not rising at an alarming rate, and the general impact of higher prices of imported goods has not been significant so far. Main increases in prices are expected in the areas of services and energy, which may push up the price levels only slightly above the base price levels.

All of this points to small tolerable increases in consumer and business price levels throughout the forecast period.

TABLE 1.21
PRICES

Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

	---Indexes--		*--------Price deflators--------*			
INDICATOR	Cons. price index n.s.a.**	Prod. price index n.s.a.**	Gross Nat'l Prod.	Pers. cons. expend.	Fed. govt. purch.	State local purch.
Unit	1982-4= 100	1982= 100	1982= 100	1982= 100	1982= 100	1982= 100
Year & Qtr.						
1986*	109.6	103.2	114.1	114.3	110.2	119.3
1987:1*	111.6	104.1	116.1	116.9	112.1	122.4
2*	113.2	105.3	117.1	118.3	114.1	123.8
3*	114.5	105.9	117.9	119.5	113.6	125.6
4*	115.4	106.9	118.7	120.7	111.9	126.9
YEAR	113.7	105.5	117.5	118.8	112.9	124.7
% change from '86	3.7	2.3	2.9	4.0	2.5	4.5
1988:1	115.9 P	106.1 P	119.4 P	121.4 P	115.8 P	128.4 P
2	116.8	107.2	121.0	123.8	116.3	129.9
3	117.9	108.3	122.5	124.5	117.5	131.6
4	118.8	110.5	123.6	125.6	119.4	133.4
YEAR	117.3	108.0	121.6	123.8	117.2	130.8
% change from '87	3.2	2.3	3.6	4.2	3.8	4.9
1989:1	119.9	112.3	124.0	126.8	121.3	133.9
2	120.6	113.6	125.1	128.4	122.5	134.6
3	121.2	115.0	128.2	132.9	123.8	137.5
4	121.8	116.9	130.3	134.5	125.4	138.9
YEAR	120.9	114.5	126.9	130.7	123.2	136.2
% change from '88	3.0	5.9	4.3	5.5	5.1	4.1

*Historical data. R = Rivised. P = Preliminary.

**CPI: All Urban Consumers; PPI: Finished Goods.

1.22 NOMINAL GNP

See Table 1.22 - page 13

THE U. S. TRADE DEFICIT DECLINED SIGNIFICANTLY IN MARCH: $9.7 BILLION, ALMOST 30% BELOW FEBRUARY'S $13.8 BIL., MAINLY DUE TO THE 27% JUMP IN EXPORTS.

The March figures confirm that the decisive improvement in the U. S. trade balance is now under way and point to the export-led boom. However, do not expect the trade improvement as dramatic in coming months, because trade figures vary significantly from month to month: expect gradual, slow trend toward a more tolerable balance of trade.

Forecast data indicate that the export boom will continue mainly due to increases in exports of aircraft and parts, offices machines, automatic data processing equipment, electric machinery, power generating machinery, general industrial machinery, telecommunications equipment, chemicals and products, paper and paper products, and plastics.

In the same way as for the Real GNP in 1988:1, the data for Nominal GNP in 1988:1 point to a more proportionate growth of the economy when compared to quarters of the previous year.

1988
FORECAST
DATA

Percent Change
from
April 1988
Forecast

+ 7.63%	Gross Private Dom. Inv.
+ .12%	State Local Purch.
+ .07%	GNP
- .57%	Pers. Cons. Expend.
- 4.51%	Net Exports
- 5.27%	Federal Govt. Purch.

TABLE 1.22
NOMINAL GNP

Quarterly data are seasonally adjusted at annual rates.

INDICATOR	Total	Pers. cons. expend.	Gross pvt. dom invest.	Net exports	Fed. govt. purch.	State local purch.
	*-----------Gross National Product					---------------*
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	bil. $
Year & Qtr.						
1986*	4235.0	2799.8	671.0	-105.5	366.2	503.5
1987:1*	4377.7	2893.8	699.9	-112.2	366.9	529.3
2*	4445.1	2943.7	702.6	-118.4	379.6	537.6
3*	4524.0	3011.3	707.4	-123.7	382.1	546.9
4*	4607.4	3022.6	760.2	-124.3	388.9	559.9
YEAR	4487.8	2967.2	717.5	-119.7	379.4	543.4
% change from '86	6.0	6.0	6.9	13.4	3.6	7.9
1988:1	4660.9 P	3068.7 P	761.9 P	-115.4 P	376.8	568.9
2	4762.2	3160.5	862.9	-116.5	384.1	576.2
3	4843.3	3184.8	760.1	-111.4	390.8	584.7
4	4922.2	3238.0	766.8	-109.7	397.7	593.8
YEAR	4797.2	3163.0	787.9	-113.2	387.4	580.9
% change from '87	6.9	6.6	9.8	-5.3	2.1	6.9
1989:1	4975.6	3291.5	768.4	-106.6	407.7	600.9
2	5036.2	3347.9	760.2	-102.8	403.0	606.5
3	5200.3	3488.1	769.8	-199.2	410.4	623.1
4	5314.0	3553.4	772.6	-196.3	413.1	632.4
YEAR	5130.9	3757.1	767.8	-151.2	408.5	615.8
% change from '88	7.0	18.8	-2.6	33.5	5.5	6.0

*Historical data. R = Revised. P = Preliminary.

1.30 EMPLOYMENT AND LABOR

See Table 1.30 - page 15

1988
FORECAST
DATA

Percent Change
from
April 1988
Forecast

+ 3.23%	Agriculture
+ .02%	Population
- .03%	Non-Agri.
- .16%	Cililian Labor Force
- .81%	Total Employed
- 3.85%	Unemployment rate

THE U.S. UNEMPLOYMENT RATE IS BELOW 6% SINCE LAST YEAR AND IS EXPECTED TO FALL TO AROUND 5.5% OR LESS WITH NO SIGNS OF INFLATION.

Economists who enjoy worrying have found a new subject to worry about: unemployment rate. As mentioned in previous issues of this survey, the "wisdom" of some textbooks tells that if the unemployment rate falls below 6%, then inflationary pressures will arise.

The relationship of the unemployment data is far more complex than that described in some textbooks by the controversial "Phillips Curve."

As it pertains to U.S. manufacturing, mines and construction, there are no signs of increasing unit labor costs: the output of the goods producing segment of the economy is growing faster than number of persons employed and their wages, and forecast data indicate that this trend will continue in the future.

The services producing segment of the U.S. economy that is absorbing the majority of the new labor force has a different costs-wage pattern than the goods-producing segment; the majority of new jobs are jobs of below-the-average wages.

Adding to that the impact of factors described in Section 1.21 Prices, the result is quite clear: the unemployment rate can continue declining or stay at low levels without inflation--contrary to the "wisdom" of some textbooks.

TABLE 1.30
EMPLOYMENT & LABOR

Quarterly data are seasonally adjusted at annual rates.

			-------Employment-------			
INDICATOR	Population	Civil. labor force	Total	Agricult.	Non-agric.	Unemployment rate
Unit	mil.	mil.	mil.	mil.	mil.	%
Year & Qtr.						
1986*	241.5	117.8	109.6	3.2	106.4	7.04
1987:1*	242.9	119.2	111.2	3.2	108.1	6.67
2*	243.8	119.6	112.2	3.2	109.2	6.22
3*	245.0	120.0	112.9	3.2	109.7	5.98
4*	246.9	120.8	113.7	3.2	110.5	5.91
YEAR	244.7	119.9	113.5	3.2	110.3	6.20
% change from '86	1.3	1.8	1.7	0.0	3.6	-12.00
1988:1	247.9 P	121.3 P	114.4 P	3.2 P	111.2 P	5.73 P
2	249.6	121.7	115.2	3.2	112.0	5.36
3	250.4	122.5	116.0	3.2	112.8	5.30
4	251.5	123.3	116.7	3.2	113.5	5.34
YEAR	249.8	122.2	115.6	3.2	112.4	5.43
% change from '87	2.1	1.9	2.2	0.0	1.9	-12.31
1989:1	253.9	124.0	117.3	3.2	114.1	5.43
2	254.3	124.8	117.8	3.2	114.6	5.62
3	255.1	125.5	118.2	3.2	115.0	5.82
4	256.0	126.1	118.8	3.2	115.6	5.80
YEAR	254.8	125.1	118.0	3.2	114.8	5.67
% change from '88	2.0	2.4	2.3	0.0	2.2	4.33

*Historical data. R = Revised. P = Preliminary.

1.41 HOUSING

See Table 1.41 - Page 17

1988
FORECAST
DATA

Percent Change from April 1988 Forecast

+ 1.81%	Multiple Family Housing Starts
+ .21%	Permits Issued
+ .20%	Mobile Home Shipments
- .02%	1-Family Unit price Existing
- 1.39%	1-Family Unit price New
- 2.52%	Single Family Housing Starts

PRELIMINARY DATA FOR HOUSING STARTS FOR THE MOST OF APRIL POINT TO A FLATNESS IN SINGLE-FAMILY UNITS AND AN UNEXPECTED, TEMPORARY, INCREASE IN MULTI-FAMILY UNIT STARTS.

However, KEDI forecast data for 1988 and 1989 remain essentially unchanged when compared to the previous forecast. The outlook remains optimistic for both years.

The current weakness in the construction of new houses is considered short-lasting. Housing starts, especially single-family housing are expected to pick up in the summer and in the second half of this year, when the mortgage rates are predicted to decline. KEDI's forecast for 1988 housing is in line with most economists who have not scaled down their forecasts because of the expected April-May slowdown in housing starts.

TABLE 1.4i
HOUSING

Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

INDICATOR Unit	Single family housing starts mil.	Multi-family housing starts mil.	Mobile home shipments mil.	Permits authorized mil.	1-Fam. unit price new** tho. $	1-Fam. unit price exist** tho. $
Year & Qtr.						
1986*	1.171	.679	.244	1.769	112.2	98.3
1987:1*	1.256	.539	.234	1.682	121.1	103.9
2*	1.142	.470	.227	1.536	126.8	105.8
3*	1.154	.468	.241	1.497	130.2	106.3
4*	1.091	.443	.230	1.431	133.3	106.1
YEAR	1.161	.480	.233	1.536	127.8	105.5
% change from '86	-.9	-29.3	-4.5	-13.1	13.9	7.3
1988:1	1.142 P	.419 P	.229 P	1.495 P	133.1	109.1
2	1.203	.469	.247	1.560	138.3	112.3
3	1.301	.490	.259	1.664	140.0	115.2
4	1.189	.475	.251	1.598	141.6	117.3
YEAR	1.209	.463	.246	1.579	138.2	113.5
% change from '87	4.1	-3.5	5.8	2.8	8.1	7.5
1989:1	1.160	.482	.232	1.484	145.3	119.1
2	1.291	.550	.245	1.673	148.8	121.2
3	1.389	.578	.282	1.806	150.4	123.5
4	1.282	.553	.277	1.859	153.0	131.6
YEAR	1.280	.541	.259	1.706	149.4	123.8
% change from '88	5.9	16.7	5.1	8.0	8.0	9.1

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*Historical data. R = Revised. P = Preliminary.
**Average. Not seasonally adjusted.

1.42 AUTOMOBILES

See Table 1.42 - page 19

RECENTLY RELEASED DATA CONFIRM THAT THE AUTOMOBILE INDUSTRY IS IN THE EXPANSION PHASE OF THE CYCLE.

The capacity utilization of automobile plants keeps increasing significantly:

February	76.8%
March	79.4%
April	80.9% (expected)
May	81.7% (expected)
June	81.0% (expected)

U.S. automakers, recently, have again boosted second-quarter output plans of vehicle production: 5.9% in cars and 8.8% in trucks, ahead of the year-ago quarter.

April-June Output Plans	1988 (in tho. cars)	1987	% change
GM	997	1,005	- .8
Ford	526	489	+ 7.6
Chrysler	333	288	+15.5
Honda	97	84	+16.6
Nissan	32	36	-10.3
Mazda	31		
VW	15	21	-26.9
Toyota	15	11	+42.4

1988
FORECAST
DATA

Percent Change
from
April 1988
Forecast

+ .48%	Total Car Sales
0.00%	Dealer Inventory
0.00%	Total Light Truck Sales
- .33%	Domestic Car Sales
- .81%	Imported Car Sales
- 1.60%	Shipments

TABLE 1.42
AUTOMOBILES

Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

INDICATOR	Total car sales	Car sales dom.	Car sales imp.	Dealer car inventory n.s.a. **	Factory car shipments	Total light truck sales
Unit	mil.	mil.	mil.	mil.	mil.	mil.
Year & Qtr.						
1986*	11.5	8.2	3.2	1.5	7.5	3.7
1987:1*	9.5	7.0	2.8	1.9	8.0	3.4
2*	10.0	6.8	3.0	1.8	8.0	3.8
3*	11.5	7.0	3.6	1.4	5.8	4.1
4*	10.1	6.8	3.3	1.9	7.4	3.9
YEAR	10.3	6.9	3.2	1.9	7.3	3.8
% change from '86	-10.7	-15.9	-.8	26.7	-2.7	2.7
1988:1	10.1 P	7.1 P	3.0 P	1.6 P	7.5 P	3.8 P
2	10.3	7.3	3.0	1.7	7.6	3.9
3	11.0	7.8	3.2	1.8	7.9	4.1
4	10.6	7.7	3.1	1.6	7.7	3.8
YEAR	10.6	7.5	3.1	1.6	7.7	3.9
% change from '87	2.7	5.8	-3.1	-15.8	5.1	2.6
1989:1	10.0	7.0	3.0	1.7	7.7	3.7
2	10.6	7.5	3.1	1.8	7.7	3.9
3	11.2	8.1	3.1	1.7	8.1	4.2
4	10.8	7.7	3.1	1.6	7.7	3.8
YEAR	10.7	7.6	3.1	1.6	7.8	3.9
% change from '88	.9	.9	0.0	0.0	1.6	0.0

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*Historical data. R = Revised. P = Preliminary.

**End of period data.

1.50 BUDGETS

See Table 1.50 - page 21

THE GRAMM-RUDMAN FEDERAL DEFICIT TARGET IS $100 BILLION IN FISCAL YEAR 1990, AT LEAST $50 BILLION BELOW THE EXPECTED LEVEL IN FY 1989.

KEDI forecast data show that such target is hardly achievable--the forecast calls for $115 billion at best for FY 1990, provided no tax increases occur.

In the presidential race, candidates have triumphed by being vague on the ways of how to cut the deficits, but whomever is elected, they won't have that luxury for long. It is anticiapted that the Gramm-Rudman-Hollings Act will remain in force although altered somewhat by amendments which will allow a slower pace for the deficit-cutting process.

1988
FORECAST
DATA

Percent Change
from
April 1988
Forecast

+ .38%	Corporate Profit Tax Accrued
+ .08%	State Local Corp. Tax Accrued
0.00%	State Surplus/ Deficit
- .34%	Federal Income Tax
- .60%	Federal Surplus/ Deficit
- .66%	State Income Tax

TABLE 1.50
FEDERAL, STATE AND LOCAL BUDGETS

Quarterly data are seasonally adjusted at annual rates.

	*-----FEDERAL	----------*		*---STATE AND LOCAL	----*	
INDICATOR	Income taxes	Corp. profits tax accru.	Surplus /deficit	Income taxes	Corp. profits tax accru.	Surplus /deficit
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	bil. $
Year & Qtr.						
1986*	363.0	83.7	-204.7	149.3	21.3	56.8
1987:1*	381.5	103.0	-170.5	154.6	25.0	41.0
2*	415.6	107.9	-139.2	162.3	26.4	50.6
3*	404.3	114.5	-135.8	161.4	28.4	46.5
4*	413.5	115.2	-149.0 P	165.9	29.1	51.8
YEAR	403.7	110.2	-148.6	161.1	27.2	47.5
% change from '86	11.2	31.6	-27.4	7.9	27.8	-16.4
1988:1	421.6 P	116.2 P	-140.6 P	166.4 P	30.2 P	53.0 P
2	426.3	120.5	-136.5	168.2	31.2	54.0
3	434.8	121.0	-136.2	175.4	32.1	55.2
4	446.2	124.1	-135.8	181.0	31.8	56.2
YEAR	432.2	120.5	-137.3	172.8	31.3	54.6
% change from '87	7.1	9.4	-7.6	7.3	15.1	15.0
1989:1	453.0	125.1	-129.6	183.5	32.1	58.1
2	458.5	127.7	-121.4	185.9	32.8	59.0
3	467.4	130.2	-113.3	188.9	33.7	59.2
4	473.8	133.8	-115.5	192.2	34.5	60.8
YEAR	463.2	129.2	-120.0	187.6	33.3	59.3
% change from '88	7.2	7.3	-12.6	8.6	6.2	8.6

*Historical data. R = Revised. P = Preliminary.

1.60 INCOME

See Table 1.60 - page 23

1988
FORECAST
DATA

Percent Change
from
April 1988
Forecast

+25.29%	Personal Savings
+ .21%	Personal Disp. Income
+ .10%	Average Weekly Earnings
+ .05%	Personal Income
- .21%	Comp. of Employees
- .62%	Corp. After Tax Earnings

THE U. S. DEPARTMENT OF COMMERCE FIRST ESTIMATE OF THE 1988:1 INCOME UNDERSCORES A SIGNIFICANT INCREASE IN PERSONAL SAVING, AS SEEN ON TABLE 1.60 ON THE FOLLOWING PAGE.

Data on personal income, personal disposable income and corporate profits for 1987:4 and 1988:1, and forecast data on these aggregates for the rest of this year and for 1989 demonstrate convincingly that increases in incomes of persons and businesses have been strong enough to overcome the impact of the October 1987 stock market decline: the income effect has been stronger than the wealth effect (the decline in values of equities).

That is exactly what KEDI has been predicting since October 1987 (see: KES issues of October 1987 and afterward, notably pp. 4 and 22 on Real Growth and Income).

Forecast data for Personal Savings indicate that such amount is not a temporary aberration and the saving rate in the following quarters will not return back to the disappointincly low levels of previous quarters.

TABLE 1.60
INCOME
Quarterly data are seasonally adjusted at annual rates.

INDICATOR	Pers. income	Pers. disp. income	Comp. of empl.	Corp. after tax profits	Pers. saving	Avg. week earn.
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	$
Year & Qtr.						
1986*	3534.3	3022.1	2504.9	126.8	130.6	382.0
1987:1*	3662.0	3125.9	2589.9	129.0	138.4	391.2
2*	3708.6	3130.6	2623.4	134.5	93.2	403.1
3*	3761.0	3195.3	2663.5	141.9	88.8	406.6
4*	3854.4	3275.0	2739.8	144.2	155.7	419.1
YEAR	3746.5	3181.7	2654.2	137.4	119.0	405.0
% change from '86	6.0	5.3	6.0	8.4	-8.9	6.0
1988:1	3897.2 P	3320.2 P	2776.5 P	152.7 P	153.1 P	410.7 P
2	4004.8	3410.3	2800.2	155.0	149.2	414.8
3	4025.7	3415.5	2885.3	156.2	128.6	419.0
4	4104.4	3477.2	2930.0	156.6	135.4	423.5
YEAR	4008.0	3405.8	2848.0	155.1	141.6	417.0
% change from '87	7.0	7.0	7.3	12.9	18.9	3.0
1989:1	4157.9	3521.4	2968.4	160.4	124.8	425.3
2	5561.2	4916.8	2970.4	165.2	136.5	426.9
3	4383.1	3726.8	3041.1	170.2	131.5	430.1
4	4462.6	3796.6	3082.3	174.0	134.8	434.5
YEAR	4641.2	3990.4	3015.6	167.4	131.9	429.2
% change from '88	15.8	17.2	5.9	7.9	-6.8	2.9

*Historical data. R = Revised. P = Preliminary.

1.70 MONEY AND CREDIT

See Table 17.0 - page 25

1988
FORECAST
DATA

Percent Change
from
April 1988
Forecast

+	.18%	Comm. & Indust. Loans at Banks
+	.10%	Time Deposits
-	.05%	Consumer Install. Credit
-	.07%	Consumer & Demand Deposits
-	.10%	Large Denom. Time Deposits
-	.65%	Mortg. at savings inst'ns

THERE ARE NO INDICATIONS THAT THE UPCOMING MEETING OF THE FED'S OPEN MARKET COMMITTEE, SCHEDULED ON MAY 18 WILL VOTE TO FURTHER TIGHTEN THE CREDIT CONDITIONS.

Forecast data do not indicate any serious possibility of inflation and the rate of exchange of the dollar appears to need no support through an increase in interest rates.

KEDI anticipates that the Federal Reserve policy will continue to be restrictive with regard to money supply, notable M1 and M2, and allowing faster growth of credit aggregates. Recent data point in this direction:

The January-March and early April data on M1 and M2 show a significant slowdown in the growth of both aggregates, while credit market instruments such as consumer credit, mortgage credit, loans and other continue their upward trends of previous quarters.

Forecast data show that such a money-credit pattern is likely to continue throughout the forecast period.

TABLE 1.70
MONEY & CREDIT

Data for "Currency and demand deposits, M1", and "Time deposits, adjusted, M2" are averages of daily figures; other data are end of period figures.

INDICATOR	Currency and demand deposits M1, s.a.	Time deposit adjust. M2,s.a.	Cons. instal. credit n.s.a. **	Comm.& indus. loans at banks s.a.	Large denom. time dep. s.a.	Mortg. at all holders ** n.s.a.
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	bil. $
Year & Qtr.						
1986*	667.4	2687.3	577.8	517.6	439.2	2568.7
1987:1*	732.3	2830.5	579.9	520.4	445.6	2665.2
2*	744.4	2849.4	587.9	526.3	458.6	2765.1
3*	745.9	2869.5	602.6	532.7	465.3	2831.4
4*	753.3	2898.4	612.1 R	540.1	484.7	2906.4
YEAR	744.0	2861.9	612.1 R	540.1	484.7	2906.4
% change from '86	11.5	6.5	5.9	5.3	10.4	13.1
1988:1	760.6 R	2946.6 R	621.8 P	545.3 P	488.0 P	2946.9 P
2	766.8	2905.5	629.2	547.7	495.3	2997.1
3	774.8	3002.4	638.8	550.9	501.2	3070.4
4	785.6	3039.7	655.6	558.8	513.1	3116.2
YEAR	772.0	2973.6	645.6	558.8	513.1	3116.2
% change from '87	3.8	3.9	5.5	3.5	5.9	7.2
1989:1	791.4	3079.4	662.2	564.3	516.7	3209.0
2	804.6	3132.1	668.2	567.3	521.4	3269.4
3	814.3	3189.8	689.7	569.2	527.9	3378.0
4	822.6	3228.1	699.7	570.9	544.6	3418.2
YEAR	808.2	3157.3	699.7	570.9	544.6	3418.2
% change from '88	4.7	6.2	8.4	2.2	6.1	9.7

*Historical data. n.s.a: not seasonally adjusted.
s.a.: seasonally adjusted at annual rates.
R = Revised. P = Preliminary.

1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES

See Table 1.80 - page 27

PAST DATA ON DOW JONES INDUSTRIAL AVERAGE; STANDARD & POOR'S 500, AND OTHER INDEXES THAT MEASURE THE PERFORMANCE OF THE STOCK MARKET INDICATE A LONGER LASTING FLATNESS.

There have been no significant ups or downs since January of this year. The situation seems paradoxical: profits and the economy are going up but the stock market remains flat.

In fact, it is not a paradox: it just confirms what very few economists asserted after the October 1987 stock market decline that before October, stocks were overvalued and the so-called "crash" was nothing else but a correction of stock prices to a more realistic level.

Forecast data point to moderate increases of the price level of stocks throughout the rest of this year and in 1989, commensurate with the overall growth of the economy.

1988
FORECAST
DATA

Percent Change
from
April 1988
Forecast

+ 4.64%	Prime Rate
+ .87%	Treas. Bills 2 mo. Yield
+ .22%	Conv. Mortg. Rate
- .70%	20 Year Govt. Bond Yield
- 2.83%	Aaa Corp. Bond Rate
- 4.61%	S & P's 500 Avg.

TABLE 1.80
INTEREST RATES, YIELDS & SECURITIES PRICES
Quarterly averages of monthly figures.

INDICATOR	Treas. bills 3 mo. yield	Prime rate	Conv. mortg (contact) rate	Aaa corp. bond rate	30 yr. Govt. bonds yield	S & P's 500 Avg 1941-43 = 10
Unit	%	%	%	%	%	
Year & Qtr.						
1986*	5.98	8.33	9.82	9.02	7.80	236.34
1987:1*	5.53	7.50	9.06	8.37	7.87	279.30
2*	5.66	8.05	8.98	9.17	8.53	293.27
3*	6.03	8.40	9.12	9.76	9.39	319.37
4*	6.00	8.87	9.46	10.21	9.23	255.37
YEAR	5.80	8.21	9.16	9.38	8.76	286.83
% change from '86	-2.9	-1.5	-6.8	4.0	12.2	21.4
1988:1	5.83 P	8.50 P	9.24 P	9.43 P	8.56 P	258.26 P
2	5.90	8.84	9.28	9.54	8.79	260.50
3	5.81	9.00	8.96	9.68	8.64	272.48
4	5.78	8.82	8.84	9.63	8.25	283.27
YEAR	5.83	8.79	9.08	9.62	8.56	268.63
% change from '87	.4	7.1	-.8	2.6	-2.2	-6.3
1989:1	6.01	8.75	8.75	9.59	8.46	282.43
2	6.08	8.97	9.04	9.68	8.49	284.59
3	6.21	9.16	9.21	9.78	8.76	294.97
4	6.28	9.27	9.48	9.84	8.91	300.51
YEAR	6.14	9.04	9.12	9.72	8.66	290.62
% change from '88	5.4	2.8	.4	1.1	1.1	8.2

*Historical data. R = Revised. P = Preliminary.

2.0 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, comparisons of accuracy of the Personal Disposable Income in 1987:4 has been selected. Actual number is in the Survey of Current Business, March 1988 issue, white pages (U.S. Department of Commerce, Washington, D.C., monthly). Forecast data are in The Journal of Business Forecasting Methods & Systems, Vol. 5, No. 4, pp. 36-42, Winter 1986/87.

TABLE 2.0

COMPARISONS OF ACCURACY OF PREDICTIONS
(Personal Disposable Income, bil. $, 1987:4)
Actual figure: 3275.0

Forecaster	Date of Forecast	Forecast	Accuracy %
AmeriTrust, Cleveland	12/86	3176.8	-3.0
Core State Financial Corp., Philadelphia	12/86	3220.0	-1.7
Fidelity Bank, Philadelphia	12/86	3212.0	-2.0
First National Bank of Chicago, Chicago	12/86	3241.4	-1.0
First Pennsylvania Bank, Philadelphia	12/86	3188.0	-2.7
Irving Trust, New York	12/86	3244.0	-1.0
LaSalle National Bank, Chicago	12/86	3176.3	-3.0
Manufacturers Hanover Trust, New York	12/86	3204.4	-2.0
KEDI, Inc., Kent	12/86	3257.0	- .5
Marine Midland Bank, New York	12/86	3244.4	-1.0
Morgan Guaranty Trust, New York	12/86	3185.2	-2.7
National City Bank, Cleveland	12/86	3173.0	-3.0
Shawmut of Boston, Boston	12/86	3213.0	-1.9
Valley National Bank, Arizona	12/86	3209.5	-2.0

3.00 HISTORICAL DATA SOURCES

For reader's convenience listed below are sources of historical data series for the forecasts appearing in the Survey. The first column of the following table refers to the table in this Survey, the second column to the name of forecast series, and the third column identifies the source of historical data. The sources are: **Survey of Current Business** referred to as SCB (monthly, U. S. Department of Commerce, Washington, D.C.), **Federal Reserve Bulletin,** FRB, (Board of Governors of the Federal Reserve System, Washington, D.C. monthly), **Index of Industrial Production,** G.12.3 Release, IIP, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly.)

TABLE 3.00

HISTORICAL DATA SOURCES

Table Number	Data Series	Source
1.11 Selected Indicators of Real Growth I.	Gross national product, 1982 $	SCB, Table 1.2
	Index of industrial production	IIP, p. 2.
	Unemployment rate	SCB, Blue pages
	Capacity utilization rate	FRB, Table 2.11
	Private housing starts	SCB, Blue pages
	Car sales	SCB, Blue pages
1.12 Selected Indicators of Real Growth II.	Personal Cons. expend: Durables,	SCB, Table 1.1
	Nondurables	SCB, Table 1.1
	Services	SCB, Table 1.1
	Retail sales: Total	SCB, Blue pages
	Durables	SCB, Blue pages
	Nondurables	SCB, Blue pages
1.12 Real GNP	Gross national product, 1982 $	SCB, Table 1.2
	Personal consumpt. expenditures	SCB, Table 1.2
	Gross private dom. investment	SCB, Table 1.2
	Net exports	SCB, Table 1.2
	Federal purchases	SCB, Table 1.2
	State and local purchases	SCB, Table 1.2
1.21 Prices	Consumer price index	SCB, Blue pages
	Producer price index	SCB, Blue pages
	Implicit price deflators: GNP	SCB, Table 7.1
	Personal consumpt. expenditures	SCB, Table 7.1
	Federal purchases	SCB, Table 7.1
	State and local purchases	SCB, Table 7.1
1.22 Nominal GNP	Gross national product	SCB, Table 1.1
	Personal consumpt. expenditures	SCB, Table 1.1
	Gross private dom. investment	SCB, Table 1.1
	Net exports	SCB, Table 1.1
	Federal purchases	SCB, Table 1.1
	State and local purchases	SCB, Table 1.1

(Table 3.00 continues on the following page.)

TABLE 3.00

HISTORICAL DATA SOURCES (CONTINUED)

Table Number	Data Series	Source
1.30 Employment and Labor	Population	SCB, Blue pages
	Civilian labor force	SCB, Blue pages
	Employment	SCB, Blue pages
	Agriculture	SCB, Blue pages
	Non-agriculture	SCB, Blue pages
	Unemployment rate	SCB, Blue pages
1.41 Housing	Single-family housing starts	SCB, Blue pages
	Multifamily housing starts	SCB, Blue pages
	Mobile home shipments	SCB, Blue pages
	Permits authorized	SCB, Blue pages
	1-family unit price, new	FRB, Table 2.14
	1-family unit price, existing	FRB, Table 2.14
1.42 Autos	Passenger cars: Total sales	SCB, Blue pages
	Domestic	SCB, Blue pages
	Imported	SCB, Blue pages
	Dealers inventories	SCB, Blue pages
	Factory shipments	SCB, Blue pages
	Light-duty truck sales	SCB, Blue pages
1.50 Federal State & Local Budgets	Federal govt: Income taxes	SCB, Table 3.2
	Corporate profit tax accruals	SCB, Table 3.2
	Surplus/Deficit	SCB, Table 3.2
	State & local govt:Income taxes	SCG, Table 3.3
	Corporate profit tax accruals	SCG, Table 3.3
	Surplus/Deficit	SCB, Table 3.3
1.60 Income	Personal income	SCB, Table 2.1
	Personal disposable income	SCB, Table 2.1
	Compensation of employees	SCB, Table 1.11
	Corporate after tax profits	SCB, Table 1.11
	Personal saving	SCB, Table 2.1
	Average weekly earnings	SCB, Blue pages
1.70 Money and Credit	Currency and demand deposits, M1	FRB, Table 1.21
	Time deposits, adjusted, M2	FRB, Table 1.21
	Consumer installment credit	FRB, Table 1.55
	Commercial and industrial loans	FRB, Table 1.23
	Large denomination time deposits	FRB, Table 1.21
	Mortgages at S&L Associations	FRB, Table 1.54
1.80 Interest Rates, Yields, & Securities Prices	Treasury bills (3 mo) yield	FRB, Table 1.35
	Prime rate	FRB, Table 1.33
	Conventional mortgage rate	FRB, Table 1.53
	Aaa corporate bonds rate	FRB, Table 1.35
	20 years government bonds yield	FRB, Table 1.35
	Standard & Poor's 500 average	FRB, Table 1.36

7/6/88 B4950-1 A

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KEDI ECONOMIC SURVEY

June 1, 1988

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SOURCES:

U.S.Department of Commerce second estimate of 1988:1, National Income and Product data, May 20, 1988.

Board of Governors of the Federal Reserve System release of the Index of Industrial Production, May 1988.

The latest available data on prices, employment, industrial and financial developments.

0.00 INTRODUCTION

0.01 EXECUTIVE SUMMARY

HIGHLIGHTS

Real Growth

KEDI forecast data for 1989 and 1990 show positive trends in the economy. No recession or downturn is in sight.

Prices

Business inflation remains under control without a significant acceleration in months ahead.

Employment & Labor

Forecast data for the second half of this year point to a low unemployment rate with significant decreases in several areas.

Housing

Single-family housing should top the one million level in the second half of this year and afterward.

Automobiles

Forecast numbers of imported cars show small increases with 3.2 million cars in 1988 and slightly higher in 1989.

Budgets

Forecast data of the Federal Budget Deficit remain fairly unchanged when compared to the May forecast.

Income

Corporate after tax profits are expected to increase by almost 13% this year over 1987.

Money & Credit

KEDI anticipates that the Fed will continue to keep the growth of monetary aggregates M1 and M2 within tolerable limits.

Interest Rates, Yields & Securities Prices

The Federal Reserve Open Market Committee meeting in June is not expected to result in tightening of credit conditions.

0.02 ASSUMPTIONS

		Last Update
1.	In 1988, the weighted price of oil will increase slightly as compared to 1987. It will continue increasing in the 1989-1990 period.	April 1986
2.	A longer-lasting relaxation in monetary and credit policies will last throughout 1988. More tightening is not expected earlier than in 1989.	February 1988
3.	In 1988 and 1989 good crops in most of the main producing countries are anticipated.	November 1987
4.	Foreign trade with China will expand in 1988 and following years.	May 1987
5.	Average rates of growth in 1985-1990 in major industrial countries are anticipated: West Germany 3.0%; Italy 2.1% reat Britain 2.1%; France 2.0%; Japan 3.1%; Canada 2.6%	September 1987
6.	No drastic changes in international relationships are anticipated.	Permanent Assumption

0.03 FORECAST HIGHLIGHTS

*	Table 0.00 on page 3 shows forecast data of selected indicators of the June 1988 KEDI forecast.	
*	In 1988 solid growth is expected. It will slow down a bit in the first half of 1989.	January 1987
*	The upward trend will continue throughout 1990-1991.	January 1987
*	Forecast data for 1988-1991 do not point to to recession or major downturn.	January 1987
*	In 1988 interest rates will remain, in average, at average, at low levels throughout most of the year. Some increases are anticipated in 1989.	March 1988
*	Federal budget deficits will keep declining in in 1988 and the following years.	January 1987
*	The 1987 export-import gap will start closing to a more acceptable level.	January 1987

TABLE 0.00

KEDI FORECAST HIGHLIGHTS

Data for 1988, 1989 and 1990 are on pages indicated below.

Indicator	Unit	1987	1991	1992	1993
Gross national	bil. 82$	3821.1	4267.8	4374.5	4488.2
product, p. 5	% change	2.9	2.9	2.5	2.6
Index of indust.	1977=100	129.8	147.2	152.0	157.2
prod., p. 5	% change	3.8	3.2	3.3	3.4
Capacity	%	82.6	83.1	81.8	81.4
utiliz., p. 5	% change	3.8	.2	-1.6	-.5
Unemployment	%	7.0	5.6	6.5	6.4
rate, p. 5	% change	-12.0	.6	-1.2	-1.1
Private housing	mil.units	1.8	2.0	1.9	2.0
starts, p. 5	% change	-5.8	4.7	-2.0	3.5
Car sales,	mil.units	10.3	11.5	11.6	12.0
p. 5	% change	-10.7	3.9	1.0	4.0
Implicit GNP	1982=100	118.8	139.0	144.0	149.4
price def.,p.11	% change	4.0	3.5	3.6	3.7
Consumer Price	1967=100	113.7	134.5	138.8	143.8
Index, p. 11	% change	3.7	3.9	3.2	3.6
Prod.Price Index	1967=100	105.5	127.5	133.2	138.3
(fin.goods),p.11	% change	2.3	4.5	4.5	3.8
Federal Deficit	bil. $	-148.6	-100.8	-81.7	-65.6
p. 21	% change	-27.4	-10.4	-19.0	-19.7
Personal Income	bil. $	3746.5	5039.8	5387.5	5786.2
p. 23	% change	6.0	7.8	6.9	7.4
Prime Rate	%	8.2	9.2	9.9	10.6
p. 27	% change	-1.5	-3.0	7.5	8.0
Mortgage Rate	%	9.2	10.2	9.9	10.1
p. 27	% change	-6.8	6.0	-2.7	1.8
Currency+demand	bil. $	744.0	896.6	955.8	1020.8
deposits , p. 25	% change	11.5	6.0	6.6	6.8
Commercial+ind.	bil. $	540.1	594.5	580.5	3674.3
loans, p. 25	% change	5.1	3.0	2.9	2.1
Raw steel	mil.sh.tons	89.2	94.6	96.2	95.1
production	% change	5.4	.5	-1.1	-.1
Electric power	mil.kw-hr	2572	3055.8	3168.9	3317.8
production	% change	4.7	3.5	3.7	4.7
Bituminous coal	mil.sh.tons	913	936	973.3	984.1
production	% change	2.5	1.0	1.3	1.5
Crude oil	avg. daily bbl.	3033	3142	3176.9	3218.2
output	% change	-.3	2.0	1.1	1.3
Retail sales	bil. $	1510.6	1985.6	2122.6	2271.1
p. 7	% change	5.8	7.2	6.9	7.0

Numbers in "% change" rows show percent changes over the previous year.

1988
FORECAST
DATA

Percent Change
from
May 1988
Forecast

+ 1.70%	Unemployment
+ .40%	GNP
0.00%	Index Indus. Prod.
0.00%	Autos
- 1.65%	Private Housing Starts
- 3.86%	Capac. Util.

1.10 REAL GROWTH, CONSUMER SPENDING, AND RETAIL SALES
1.11 REAL GROWTH

See Table 1.11
Page 5

KEDI FORECAST DATA FOR 1989 AND 1990 SHOW POSITIVE TRENDS IN THE ECONOMY. NO RECESSION OR DOWNTURN IS IN SIGHT.

Economic indicators continue pointing to a robust economy for months ahead:

* businesses plan to boost capital spending in 1988 by 10.7% according to U.S. Dept. of Commerce survey conducted in April-May

* factory orders increased by 1.2% in April compared to March

* leading indicators for April advanced to 192.2 compared to 191.9 in March

* factory shipments, construction spending, industrial production, automobile output continue advancing

* export-import gap has declined significantly in March and is expected to further decline in April

* non-farm productivity increased at 3.6% rate in 1988:1 compared to 1987:4.

TABLE 1.11
SELECTED INDICATORS I.
Quarterly data are seasonally adjusted at annual rates.

INDICATOR	GNP	Index of ind. prod.	Unem- ployment	Capacity util'n rate	Private housing starts	Auto sales
Unit	$82 bil.	1977=100	%	%	mil.	mil.
Year & Qtr.						
1987*	3821.1	129.8	6.20	82.6	1.621	10.3
1988:1	3918.0 R	134.2 R	5.73 P	82.6 R	1.561 P	10.2 R
2	3951.2	135.4	5.56	82.9	1.665	10.4
3	3969.7	136.4	5.41	82.9	1.795	11.0
4	3998.4	136.8	5.39	83.0	1.667	10.8
YEAR	3959.3	135.7	5.52	82.8	1.672	10.6
% change from '87	3.6	4.5	-10.9	.3	3.1	2.9
1989:1	4027.7	137.2	5.48	82.9	1.642	10.0
2	4041.3	138.8	5.60	82.8	1.841	10.7
3	4068.4	139.2	5.81	82.9	1.958	11.3
4	4094.3	139.9	5.72	82.7	1.835	10.8
YEAR	4057.9	138.8	5.65	82.8	1.819	10.7
% change from '88	2.5	2.3	2.4	-.0	8.8	.9
1990:1	4114.5	140.2	5.76	82.8	1.680	10.8
2	4136.2	141.0	5.54	82.9	1.869	10.9
3	4161.0	143.4	5.47	83.0	2.040	11.4
4	4178.3	145.8	5.45	83.0	1.903	11.0
YEAR	4147.5	142.6	5.55	82.9	1.873	11.0
% change from '89	2.2	2.8	-1.7	.1	3.0	3.0

*Historical data.
R = Revised. P = Preliminary.

1.12 CONSUMER SPENDING AND RETAIL SALES

See Table 1.12 - page 7

1988
FORECAST
DATA

Percent Change
from
May 1988
Forecast

+ .78%	Retail Sales Nondurable
+ .70%	Pers. Con. Exp. Nondurable
+ .20%	Pers. Con. Exp. Durable
+ .02%	Pers. Con. Exp. Services
- .02%	Retail Sales Total
- 1.65%	Retail Sales Durable

THE KEDI FORECAST OF CONSUMER SPENDING AND RETAIL SALES IS OPTIMISTIC WITH STRONG CONSUMER SPENDING ON DURABLES, ESPECIALLY AUTOMOTIVE PRODUCTS AND HOUSEHOLD DURABLES, AND HEALTHY INCREMENTS IN SPENDING ON SERVICES FOR THE REST OF THIS YEAR AND CONTINUING THROUGH 1990.

Data of Indexes of Consumer Confidence prepared by the Conference Board and the University of Michigan show that in April the consumer confidence in the U. S. economy stood at a decade-high level.

Actually, there is no reason why consumer confidence shoudl be low or declining with the unemployment rate the lowest in 14 years, personal disposable income growing at a faster rate than prices, lower income tax rates, many industries experiencing a boom, while the others are doing well or very well, and recession or a downturn are not in sight--that all translates into high confidence of consumers and their strong spending mood, not only at the present time but also in the future.

TABLE 1.12

CONSUMER SPENDING AND RETAIL SALES

Quarterly data are seasonally adjusted at annual rates.

	--Personal Cons. Expend.-			*------Retail Sales-------*		
INDICATOR	Durables	Nondurables	Services	Total	Durables	Nondurables
Unit	bil.$	bil.$	bil.$	bil.$	bil.$	bil.$
Year & Qtr.						
1987*	413.7	982.9	1571.2	1510.6	559.1	951.5
1988:1	426.4 R	998.8 R	1646.9 R	1540.2 R	580.8 R	951.4 R
2	434.8	1019.6	1715.5	1604.8	592.7	1012.1
3	448.6	1040.2	1705.7	1654.8	616.4	1038.4
4	456.9	1061.1	1731.1	1669.7	630.6	1039.1
YEAR	441.7	1029.9	1699.8	1617.4	605.1	1010.2
% change from '87	6.8	4.8	8.2	7.1	8.2	6.2
1989:1	459.9	1070.2	1770.4	1699.6	609.8	1089.8
2	469.3	1088.3	1796.9	1728.5	627.6	1100.9
3	477.4	1114.9	1906.4	1769.7	656.5	1113.2
4	484.4	1122.5	1951.8	1792.6	678.9	1113.7
YEAR	472.8	1099.0	1856.4	1747.6	643.2	1104.4
% change from '88	7.0	6.7	9.2	8.1	6.3	9.3
1990:1	490.1	1132.4	1993.3	1817.5	698.5	1119.0
2	497.8	1143.5	2048.5	1839.8	717.4	1122.4
3	509.6	1155.7	2099.1	1864.3	735.2	1129.1
4	523.3	1168.2	2136.1	1887.2	754.7	1132.5
YEAR	505.2	1150.0	2069.2	1852.2	726.5	1125.8
% change from '89	6.9	4.6	11.5	6.0	12.9	1.9

* Historical data. R = Revised. P = Preliminary.

1.13 REAL GNP

See Table 1.13
Page 9

THE FIRST QUARTER OF THIS YEAR LOOKS EVEN BETTER WITH THE SECOND REVISION DATA COMPARED TO THE FIRST REVISION.

Revised data show that the GNP in 1988:1 has grown by 3.4% compared to the first estimate of 2.8%. The main factor that contributed to that outcome was net exports: in 1988:1 exports increased by $21.8 bil., (measured in constant 1982 $), mainly due to the increase in exports of manufactured products, while imports rose only $5 bil. (1982$), leaving the balance of U.S. trade at $-119.1 bil., compared to the $-132.2 bil. in the first estimate.

Another positive feature of the 1988:1 GNP is the change in inventories. In the last quarter, manufacturing inventories rose by $37.6 bil. compared to the $51.5 bil. increase in 1987:4. Retail inventories of cars declined by $14.1 bil. compared to their increase of $14.1 bil. in 1987:4. These data and other data on inventories underscore a healthy pace of the economy. Increases in inventories are commensurate to the overall growth, and inventories of cars are manageable. There has been no excessive buildup of cars, as many economists have feared.

1988
FORECAST
DATA

Percent Change
from
May 1988
Forecast

+ .40%	GNP
+ .36%	Pers. Cons. Expend.
+ .17%	Federal Govt. Purch.
- .16%	Gross Private Dom. Inv.
- .55%	State Local Purch.
- 7.49%	Net Exports

TABLE 1.13
REAL GNP

Quarterly data are seasonally adjusted at annual rates.

INDICATOR	Gross National Product					
	Total	Pers. cons. expend.	Gross pvt.dom. investm.	Net exports	Fed. govt. purch.	State local purch.
Unit	$82 bil.	$82 bil.	$82 bil.	$82 bil.	$82 bil.	$82 bil.
Year & Qtr.						
1987*	3821.1	2497.2	687.6	-135.5	336.0	435.8
1988:1	3918.0 R	2540.9	735.7	-119.1 R	327.5 R	433.0 R
2	3951.2	2560.5	737.8	-120.9	330.2	443.6
3	3969.7	2565.9	743.7	-117.0	332.6	444.5
4	3998.4	2586.9	746.5	-113.3	333.1	445.2
YEAR	3959.3	2563.5	740.9	-117.6	330.9	441.6
% change from '87	3.6	2.7	7.8	-13.2	-1.5	1.3
1989:1	4027.7	2602.9	750.4	-110.5	336.1	448.8
2	4041.3	2612.5	753.6	-109.6	334.2	450.6
3	4068.4	2632.6	757.5	-110.4	335.5	453.2
4	4094.3	2645.9	760.4	-103.7	336.4	455.3
YEAR	4057.9	2623.5	755.5	-108.5	335.6	452.0
% change from '88	2.5	2.3	2.0	-7.7	1.4	2.4
1990:1	4114.5	2643.1	763.1	-99.8	337.2	457.1
2	4136.2	2669.9	765.4	-96.5	339.4	458.0
3	4161.0	2683.1	768.2	-91.2	340.7	460.2
4	4178.3	2691.7	767.3	-85.3	341.8	462.8
YEAR	4147.5	2671.9	766.0	-93.2	339.8	459.5
% change from '89	2.2	1.8	1.4	-14.1	1.3	1.7

*Historical data.
R = Revised. P = Preliminary.

1.20 PRICES AND NOMINAL GNP

1.21 PRICES

See Tables 1.21 - page 11

1988
FORECAST
DATA

Percent Change
from
May 1988
Forecast

+ .93%	Producer Price Index
+ .53%	Consumer Price Index
+ .02%	Pers. Cons. Expend.
0.00%	GNP
0.00%	Federal Govt. Purch.
0.00%	State Local Purch.

BUSINESS INFLATION REMAINS UNDER CONTROL WITHOUT ANY SIGNIFICANT ACCELERATION IN MONTHS AHEAD. KEDI'S FORECAST OF CONSUMER PRICE INFLATION IS OPTIMISTIC WITH ONLY MODERATE PRICE INCREASES IN THE 3-4% RANGE THIS YEAR, 1989 AND 1990.

Analysis of recent data on producer prices points to continuous small increases in the general price level without any signal of accelerating "business price inflation" in the foreseeable future. The April and May increases in the Producer Price Index indicate the 3.2% annualized rise for 1988, which is well within tolerable limits. Excluding food and energy, the PPI for the past months shows even smaller increases with March at +.4%, April at +.1%, and an expected .3% for May. Actually in April, prices of raw materials, notably prices of cotton, iron ore, logs, natural rubber, aluminum, coal and many others dropped by 1.7%, and prices of products of industries with high capacity utilization have slowed down their increases, especially industrial chemicals and paper.

PRICE INCREASES OVER PREVIOUS MONTHS:

	Indust. Chem.	Paper & Products
March	4.4%	3.6%
April	1.8%	4.3%
May (expected)	.5%	.9%

TABLE 1.21
PRICES

Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

	---Indexes--		*-------Price deflators--------*			
INDICATOR	Cons. price index n.s.a.**	Prod. price index n.s.a.**	Gross Nat'l Prod.	Pers. cons. expend.	Fed. govt. purch.	State local purch.
Unit	1982-4= 100	1982= 100	1982= 100	1982= 100	1982= 100	1982= 100
Year & Qtr.						
1987*	113.7	105.5	117.5	118.8	112.9	124.7
1988:1	115.9 P	106.1 P	119.2 R	121.4 R	115.9 R	128.6 R
2	117.2	108.0	121.1	123.8	116.3	129.9
3	118.8	109.3	122.5	124.5	117.5	131.6
4	119.8	112.6	123.6	125.6	119.1	133.1
YEAR	117.9	109.0	121.6	123.8	117.2	130.8
% change from '87	3.7	3.3	3.5	4.2	3.8	4.9
1989:1	121.9	113.9	124.0	126.8	121.3	133.9
2	122.9	115.0	125.1	128.4	122.5	134.6
3	124.5	115.8	128.0	132.9	123.4	137.2
4	126.1	116.1	123.6	134.5	119.4	138.3
YEAR	123.8	115.2	125.2	130.7	121.7	136.0
% change from '88	5.0	5.7	2.9	5.5	3.8	4.0
1990:1	127.3	118.5	132.3	136.8	125.8	139.5
2	128.8	119.4	133.6	138.2	126.9	140.8
3	129.9	120.8	135.0	140.3	128.1	142.0
4	131.7	122.4	136.4	142.2	129.3	143.6
YEAR	129.4	120.3	134.3	139.4	127.5	141.5
% change from '89	4.5	4.4	7.3	6.7	4.8	4.0

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*Historical data. R = Revised. P = Preliminary.
**CPI: All Urban Consumers; PPI: Finished Goods.

1.22 NOMINAL GNP

See Table 1.22 - page 13

1988 FORECAST DATA

Percent Change from May 1988 Forecast

+ .36%	Pers. Cons. Expend.
+ .11%	Federal Govt. Purch.
0.00%	State Local Purch.
- 1.69%	GNP
- 3.27%	Gross Private Dom. Inv.
- 5.54%	Net Exports

U.S. DEPARTMENT OF COMMERCE SECOND ESTIMATE OF NOMINAL GNP AND COMPONENTS SHOWS FURTHER IMPROVEMENT WHEN COMPARED TO THE FIRST ESTIMATE:

Second Estimate of the 1988:1 GNP and Components. (Changes from the first estimate, in bil. $)

GNP Total	+ 7.6
Pers. Cons. Exp.	+ 3.2
Net Exports	- 5.2
Federal Purch.	+ 2.9
State/Local Purch.	+ .9

No significant further changes by the third and final GNP estimates of 1988:1 are expected.

ERRATUM: Forecast data for Net Exports in 1989:3 and 1989:4, Year total, and % change were misprinted in the last issue of this survey. Below is the corrected data for page 13, column 4, Net exports in bil. $:

1989:1	-106.6
2	-102.9
3	- 99.2
4	- 96.3
YEAR	-101.2
% change from '88	- 11.8

KEDI sincerely regrets the inconvenience.

TABLE 1.22
NOMINAL GNP

Quarterly data are seasonally adjusted at annual rates.

	*-----------Gross National Product					---------------*
INDICATOR	Total	Pers. cons. expend.	Gross pvt. dom invest.	Net exports	Fed. govt. purch.	State local purch.
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	bil. $
Year & Qtr.						
1987*	4488.5	2967.2	717.5	-119.6	379.4	543.4
1988:1	4668.7 R	3071.9 R	756.7 R	-109.4 R	379.7 R	569.8 R
2	4784.9	3169.9	761.9	-116.2	384.0	576.2
3	4862.9	3194.5	763.1	-101.4	390.8	585.0
4	4942.0	3249.1	766.8	-100.7	396.7	592.6
YEAR	4814.5	3174.3	762.1	-106.9	387.8	580.9
% change from '87	7.3	7.0	6.2	-10.6	2.2	6.9
1989:1	4994.3	3300.5	768.4	-97.4	407.7	600.9
2	5055.7	3354.5	764.2	-92.8	409.4	606.5
3	5207.6	3498.7	769.8	-90.3	414.0	621.8
4	5060.6	3558.7	772.6	-87.4	401.7	629.7
YEAR	5079.5	3428.1	768.8	-92.0	408.2	614.7
% change from '88	5.5	8.0	.9	-14.0	5.3	5.8
1990:1	5443.5	3615.8	774.7	-83.2	424.2	637.7
2	5526.0	3689.8	775.3	-80.5	430.7	644.9
3	5617.4	3764.4	778.2	-78.3	436.4	653.5
4	5699.2	3827.6	780.5	-77.2	441.9	664.6
YEAR	5571.5	3724.4	777.2	-79.8	433.3	650.1
% change from '89	9.7	8.6	1.1	-13.2	6.2	5.8

*Historical data. R = Revised. P = Preliminary.

1.30 EMPLOYMENT AND LABOR

See Table 1.30 - page 15

1988
FORECAST
DATA

Percent Change
from
May 1988
Forecast

+ 3.23%	Agriculture
+ 1.70%	Unemployment rate
+ .02%	Population
0.00%	Civilian Labor Force
- .21%	Total Employed
- .22%	Non-Agri.

FORECAST DATA FOR SECOND HALF OF THIS YEAR POINT TO A LOW UNEMPLOYMENT RATE WITH SIGNIFICANT INCREASES IN EMPLOYMENT MAINLY IN DURABLE MANUFACTURING AND SERVICE INDUSTRIES.

The first half of 1989 shows some slowdown in increases of employment, as expected. Look for an upward resumption in the second half of 1989. It will continue throughout 1990 (See Table 1.3 on the following page.)

The expected trend in employment is well documented by data recently releasted by the widely followed and respected Milwaukee-based firm Manpower, Inc. It's recent survey of 14,000 U.S. firms shows that 31% of the firms plan to hire additional staff in 1988:3 (34% of firms in durable industries and 33% of firms in services industries), while only 6% of firms intend to reduce their staff. The 31% is the highest level since 1984, according to the survey.

Also indicative for future developments in the U.S. labor market are the data of newly-employed persons released by the U.S. Dept. of Labor:

Newly-employed persons
(Payroll survey)

March	467,000
April	249,000
May (expected)	209,000

TABLE 1.30
EMPLOYMENT & LABOR

Quarterly data are seasonally adjusted at annual rates.

			-------Employment-------			
INDICATOR	Population	Civil. labor force	Total	Agricult.	Non-agric.	Unemployment rate
Unit	mil.	mil.	mil.	mil.	mil.	%
Year & Qtr.						
1987*	244.7	119.9	113.5	3.2	100.3	6.20
1988:1	247.9 R	121.2 R	114.3 R	3.2 R	111.1 R	5.73 R
2	249.6	121.7	114.9	3.2	111.7	5.56
3	250.4	122.6	116.0	3.2	112.8	5.41
4	251.5	123.3	116.7	3.2	113.5	5.39
YEAR	249.8	122.2	115.4	3.2	112.2	5.52
% change from '87	2.1	1.9	1.8	0.0	11.8	-10.93
1989:1	253.9	123.9	117.1	3.2	113.9	5.48
2	254.3	124.6	117.6	3.2	114.4	5.60
3	255.1	125.3	118.0	3.2	114.8	5.81
4	256.0	126.0	118.8	3.2	115.6	5.72
YEAR	254.8	125.0	117.9	3.2	114.7	5.65
% change from '88	2.0	2.3	2.2	0.0	2.3	2.35
1990:1	257.4	126.6	119.3	3.2	116.1	5.76
2	258.9	127.4	120.3	3.2	117.1	5.54
3	260.2	128.0	121.0	3.2	117.8	5.47
4	261.8	128.8	121.8	3.2	118.6	5.45
YEAR	259.6	127.7	120.6	3.2	117.4	5.55
% change from '89	1.9	2.2	2.2	0.0	2.4	-1.72

*Historical data. R = Revised. P = Preliminary.

1.41 HOUSING

See Table 1.41 - Page 17

1988 FORECAST DATA

Percent Change from May 1988 Forecast

+ 2.58%	Multiple Family Housing Starts
+ .46%	Permits Issued
+ .13%	1-Family Unit price New
- .29%	1-Family Unit price Existing
- .30%	Mobile Home Shipments
- .31%	Single Family Housing Starts

LOWER MORTGAGE RATES, STRONG NEW HOME SALES AND INCREASES IN DISPOSABLE INCOME ARE CONSIDERED MAIN FACTORS THAT WILL BOOST THE SINGLE-FAMILY HOUSING STARTS SIGNIFICANTLY ABOVE THE ONE MILLION LEVEL IN THE SECOND HALF OF THIS YEAR AND AFTERWARD.

KEDI forecast of housing starts for the balance of this year and afterward remains optimistic and the strong rebound in new home sales (+4% in Aprilover March), and permits authorized (+2.5% in April over March), point to recovery in single-family housing in coming months.

Forecast data indicate that no significant further increases in mortgage rates will take place, and gradual declines are expected in the second half of this year. The April average conventional fixed mortgage rate was 10.75, March was 9.90, both well below the pre-October 1987 12% rate.

TABLE 1.41
HOUSING

Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

INDICATOR Unit	Single family housing starts mil.	Multi-family housing starts mil.	Mobile home shipments mil.	Permits authorized mil.	1-Fam. unit price new** tho. $	1-Fam. unit price exist** tho. $
Year & Qtr.						
1987*	1.146	.475	.233	1.536	127.8	105.5
1988:1	1.142 P	.419 P	.229 P	1.495 P	133.1 P	109.1 P
2	1.196	.469	.247	1.560	138.7	112.3
3	1.301	.494	.254	1.691	140.1	115.0
4	1.182	.485	.251	1.599	141.6	116.3
YEAR	1.205	.467	.245	1.586	138.4	113.2
% change from '87	5.2	-1.7	5.3	3.3	8.3	7.3
1989:1	1.160	.482	.232	1.486	145.3	119.1
2	1.291	.550	.245	1.673	148.8	120.2
3	1.380	.578	.282	1.762	150.4	123.0
4	1.282	.553	.277	1.759	153.0	127.6
YEAR	1.278	.541	.259	1.670	149.4	122.5
% change from '88	6.1	15.9	5.6	5.3	7.9	8.2
1990:1	1.184	.496	.238	1.524	154.1	130.1
2	1.296	.573	.256	1.689	156.7	132.4
3	1.436	.604	.298	1.819	159.3	136.7
4	1.311	.592	.284	1.843	162.7	140.0
YEAR	1.307	.566	.269	1.719	158.2	134.8
% change from '89	2.2	4.7	3.9	2.9	5.9	10.1

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*Historical data. R = Revised. P = Preliminary.

**Average. Not seasonally adjusted.

1.42 AUTOMOBILES

See Table 1.42 - page 19

1988
FORECAST
DATA

Percent Change
from
May 1988
Forecast

+ 2.56%	Total Light Truck Sales
+ .81%	Imported Car Sales
+ .32%	Shipments
0.00%	Dealer Inventory
- .33%	Domestic Car Sales
- .94%	Total Car Sales

FORECAST NUMBERS OF IMPORTED CARS SHOW SMALL INCREASES WITH 3.2 MILLION CARS IN 1988. THEY WILL INCREASE SLIGHTLY IN 1990 TO 3.3 MILLION UNITS.

KEDI forecast of the automotive industry remains unchanged for good years in 1988 and 1989 with some slowing down in 1990.

Data for the production of cars are optimistic for the remainder of this year and in the following two years with a steady upward trend that will flatten in 1990.

The market for light-duty trucks is expected to remain strong throughout the entire forecast period.

TABLE 1.42
AUTOMOBILES

Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

INDICATOR	Total car sales	Car sales dom.	Car sales imp.	Dealer car inventory n.s.a. **	Factory car shipments	Total light truck sales
Unit	mil.	mil.	mil.	mil.	mil.	mil.
Year & Qtr.						
1987*	10.3	7.1	3.1	1.7	7.3	3.8
1988:1	10.2 R	7.1 R	3.1 R	1.6 R	7.5 R	3.9 R
2	10.0	7.4	3.1	1.7	7.7	4.0
3	11.0	7.8	3.2	1.8	7.9	4.2
4	10.8	7.6	3.2	1.6	7.8	3.9
YEAR	10.5	7.5	3.2	1.6	7.7	4.0
% change from '87	2.9	5.3	.8	-5.9	5.8	5.3
1989:1	10.0	6.8	3.2	1.7	7.8	3.8
2	10.7	7.5	3.2	1.8	7.8	4.1
3	11.3	8.1	3.2	1.7	8.2	4.3
4	10.8	7.6	3.2	1.7	7.7	4.0
YEAR	10.7	7.5	3.2	1.7	7.9	4.0
% change from '88	.9	-1.5	2.4	6.2	1.9	1.2
1990:1	10.8	7.6	3.2	1.7	7.9	4.2
2	10.9	7.6	3.3	1.8	8.0	4.3
3	11.4	8.0	3.4	1.8	8.4	4.5
4	11.0	7.7	3.3	1.8	8.0	4.4
YEAR	11.0	7.7	3.3	1.8	8.1	4.3
% change from '89	3.0	-.1	3.1	5.9	2.5	7.4

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*Historical data. R = Revised. P = Preliminary.
**End of period data.

1.50 BUDGETS

See Table 1.50 - page 21

FORECAST DATA OF THE FEDERAL BUDGET DEFICIT REMAIN FAIRLY UNCHANGED WHEN COMPARED TO THE MAY FORECAST.

Forecast for calendar year 1990 shows a $112.6 bil. deficit, assuming neither new taxes will be approved nor rate on existing taxes will be raised, and the budget expenditures will be kept within the limits set up in the Administration's forecast.

Compared to the expected $61.7 bil. surplus of State and Local Governments in calendar year 1990, the difference of $112.6 bil. minus $61.7 bil. equals $50.9 bil., which is the deficit of the entire government. The long-term forecast data point to calendar year 1992 when the Government sector of Federal Government plue State and Local Governments is expected to be in balance.

1988 FORECAST DATA

Percent Change from May 1988 Forecast

+ .66%	Federal Surplus/ Deficit
0.00%	Corporate Profit Tax Accrued
- .01%	State Income Tax
- .24%	State Local Corp. Tax Accrued
- .32%	State Surplus/ Deficit
- 1.48%	Federal Income Tax

TABLE 1.50
FEDERAL, STATE AND LOCAL BUDGETS

Quarterly data are seasonally adjusted at annual rates.

INDICATOR	*-----FEDERAL	----------*		*---STATE AND LOCAL	----*	
	Income taxes	Corp. profits tax accru.	Surplus /deficit	Income taxes	Corp. profits tax accru.	Surplus /deficit
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	bil. $
Year & Qtr.						
1987*	403.7	109.4	-151.4	161.1	26.9	44.0
1988:1	410.0 R	116.3 R	-142.1 R	166.8 R	30.3 R	53.2 R
2	419.3	120.5	-138.7	168.2	31.2	53.7
3	430.8	121.0	-136.2	175.0	31.6	54.8
4	443.2	124.2	-135.8	181.1	31.8	56.0
YEAR	425.8	120.5	-138.2	172.8	31.2	54.4
% change from '87	5.5	10.1	-8.7	7.2	16.1	23.7
1989:1	450.1	125.1	-129.2	183.5	32.1	58.1
2	454.5	127.6	-121.4	185.9	32.8	59.0
3	462.0	130.2	-113.3	188.9	33.7	59.2
4	469.8	133.3	-115.5	191.9	34.5	60.8
YEAR	459.1	129.1	-119.8	187.6	33.3	59.3
% change from '88	7.8	7.1	-13.3	8.6	6.6	8.9
1990:1	478.6	134.7	-114.1	193.4	35.4	61.7
2	485.7	135.1	-112.6	196.2	35.9	62.4
3	494.3	138.6	-114.3	199.7	37.1	63.0
4	501.6	142.4	-109.2	202.3	38.0	63.6
YEAR	490.1	137.7	-112.5	197.9	36.6	62.7
% change from '89	6.7	6.7	-6.1	5.5	10.0	5.7

*Historical data. R = Revised. P = Preliminary.

1.60 INCOME

See Table 1.60 - page 23

1988
FORECAST
DATA

Percent Change
from
May 1988
Forecast

+ 1.47%	Corp. After Tax Earnings
+ .81%	Personal Savings
+ .09%	Average Weekly Earnings
- .13%	Comp. of Employees
- 1.76%	Personal Income
- 1.97%	Personal Disp. Income

CORPORATE AFTER TAX PROFITS ARE EXPECTED TO INCREASE BY ALMOST 13% THIS YEAR OVER 1987 AND SLOWDOWN SOMEWHAT TO THE 10% RATE IN 1989.

In 1989 the largest percentage increases in the after tax profits are forecasted for business services industries, durable manufacturing industries, notably electronic and electric machinery, fabricated metal products, aerospace, and instruments. Forecase data of Personal Income, Personal Disposable Income and their components in 1988 and up to 1990 show regular and balanced increases throughout the forecast period, without any significant declines or aberrations.

ERRATUM: Forecast data for Personal Income and Personal Disposable Income for 1989, Year total and % change were misprinted in the last issue of this survey. Below is the corrected data for page 23, columns 1 and 2:

	Personal Income	Personal Disp. Income
1989:1	4147.9	3251.4
2	4561.2	3916.8
3	4383.1	3726.8
4	4462.6	3796.6
Year	4391.2	3740.4
% change from '88	9.6	9.8

KEDI sincerely regrets the inconvenience.

TABLE 1.60
INCOME
Quarterly data are seasonally adjusted at annual rates.

INDICATOR	Pers. income	Pers. disp. income	Comp. of empl.	Corp. after tax profits	Pers. saving	Avg. week earn.
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	$
Year & Qtr.						
1987*	3746.5	3181.7	2647.8	137.4	119.0	405.0
1988:1	3902.3 R	3325.5 R	2762.4 R	152.8 R	155.2 R	410.7 P
2	3907.2	3319.7	2800.8	155.0	149.8	414.8
3	3930.9	3325.1	2885.3	158.1	130.6	420.1
4	4008.8	3384.5	2928.6	163.6	135.4	423.9
YEAR	3937.3	3338.7	2844.3	157.4	142.8	417.4
% change from '87	5.1	4.9	7.4	14.5	20.0	3.1
1989:1	4177.2	3543.6	2964.4	168.4	134.8	428.1
2	4245.1	3604.7	2966.4	170.0	140.7	429.6
3	4402.5	3751.6	3035.1	174.2	141.5	432.1
4	4471.8	3810.1	3080.3	178.0	138.8	437.5
YEAR	4324.1	3677.5	3011.6	172.7	138.9	431.8
% change from '88	9.8	10.1	5.9	9.7	-2.7	3.5
1990:1	4540.7	3868.7	3126.2	143.6	139.2	425.3
2	4633.5	3951.6	3172.5	185.2	147.5	442.3
3	4724.3	4030.3	3216.9	188.7	150.3	444.7
4	4802.0	4098.1	3262.7	194.5	153.4	446.2
YEAR	4675.1	3987.2	3194.6	178.0	147.6	439.6
% change from '89	8.1	8.4	6.1	3.1	6.2	1.8

*Historical data. R = Revised. P = Preliminary.

1.70 MONEY AND CREDIT

See Table 17.0 - page 25

1988
FORECAST
DATA

Percent Change
from
May 1988
Forecast

+ 1.86%	Consumer Install. Credit
+ .45%	Time Deposits
+ .33%	Large Denom. Time Deposits
- .01%	Consumer & Demand Deposits
- .10%	Mortg. at savings inst'ns
- .14%	Comm. & Indust. Loans at Banks

KEDI ANTICIPATES THAT THE FED WILL CONTINUE TO KEEP THE GROWTH OF MONETARY AGGREGATES M1 AND M2 WELL WITHIN TOLERABLE LIMITS OF 4-6% ANNUAL GROWTH RATE FOR M1 AND 6-8% FOR M2 THIS YEAR, AND IN 1989 AND 1990 AS WELL.

The need to generate large quantities of M1 now and in the foreseeable future is not as burning as it was in years before for two main reasons:

* Current data and forecast data show convincingly that the peak of the U.S. foreign trade imbalance is over as the U.S. trade gap continues declining and so will the U.S. need for foreign capital. Hence, there is not such an urgent need of increasing foreign holdings of U.S. dollars in order to stimulate foreign investment in U.S. assets.

* The second reason--injection of new money into the stock market does not hold any more after the Fed's experience with the October 1987 stock market decline.

TABLE 1.70
MONEY & CREDIT

Data for "Currency and demand deposits, M1", and "Time deposits, adjusted, M2" are averages of daily figures; other data are end of period figures.

INDICATOR	Currency and demand deposits M1, s.a.	Time deposit adjust. M2,s.a.	Cons. instal. credit n.s.a. **	Comm.& indus. loans at banks s.a.	Large denom. time dep. s.a.	Mortg. at all holders ** n.s.a.
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	bil. $
Year & Qtr.						
1987*	744.0	2861.9	612.1	540.1	484.7	2906.4
1988:1	760.4 R	2946.8 R	621.8 R	545.3 R	488.0 R	2946.9 R
2	766.8	2905.5	629.2	547.7	495.3	2997.4
3	774.7	3006.8	639.9	550.9	501.9	3070.4
4	785.6	3088.7	657.6	558.0	514.8	3113.2
YEAR	771.9	2986.9	657.6	558.0	514.8	3113.2
% change from '87	3.7	4.4	7.4	5.3	6.2	7.1
1989:1	791.4	3179.4	662.2	564.3	517.7	3201.0
2	804.0	3202.6	668.2	567.1	521.4	3266.4
3	814.3	3269.8	383.7	569.2	530.6	3372.0
4	820.1	3310.1	690.8	570.1	547.6	3408.3
YEAR	807.5	3240.5	690.8	570.1	547.6	3408.3
% change from '88	4.6	8.5	5.0	2.2	6.4	9.5
1990:1	828.3	3370.3	703.1	571.6	550.3	3462.2
2	839.8	3401.2	710.6	573.4	556.2	3508.7
3	852.1	3498.5	716.4	574.7	560.3	3559.4
4	863.2	3543.4	724.8	577.2	564.1	3598.7
YEAR	845.9	3453.3	724.8	577.2	564.1	3598.7
% change from '89	4.8	6.6	4.9	1.2	3.0	5.6

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*Historical data. n.s.a: not seasonally adjusted.
s.a.: seasonally adjusted at annual rates.
R = Revised. P = Preliminary.

1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES

See Table 1.80 - page 27

IT IS ANTICIPATED THAT THE FEDERAL RESERVE OPEN MARKET COMMITTEE WILL ALTER ITS STANCE AT THE JUNE MEETING SINCE, IN ACTUALITY, THERE IS NO REASON FOR A FURTHER TIGHTENING OF CREDIT CONDITIONS.

KEDI maintains its forecast of interest rates for the second half of this year: no more increases but stable levels with some small declines during the Summer and Fall.

In 1989 a continuous, slow rising of interest rates is forecasted throughout the year and up to the first half of 1989.

None of the credit aggregates shows a tendency for percipitous growth since the rate of exchange of the dollar has been stabilized, and there are no signs of an increase of the threat of rising inflation induced by high employment and high capacity utilization.

1988
FORECAST
DATA

Percent Change
from
May 1988
Forecast

+ 1.32%	S & P's 500 Avg.
+ 1.07%	Treas. Bills 2 mo. Yield
+ .51%	Prime Rate
+ .10%	Aaa Corp. Bond
- .09%	20 Year Govt. Bond Yield
- .28%	Conv. Mortg. Rate

TABLE 1.80
INTEREST RATES, YIELDS & SECURITIES PRICES

Quarterly averages of monthly figures.

INDICATOR	Treas. bills 3 mo. yield	Prime rate	Conv. mortg (contact) rate	Aaa corp. bond rate	30 yr. Govt. bonds yield	S & P's 500 Avg 1941-43 = 10
Unit	%	%	%	%	%	
Year & Qtr.						
1987*	5.80	8.21	9.16	9.38	8.76	286.83
1988:1	5.83 R	8.50 R	9.24 R	9.43 R	8.56 R	258.26
2	6.04	8.84	9.28	9.54	8.79	264.70
3	5.92	9.00	8.96	9.90	8.61	278.48
4	5.78	9.00	8.74	9.65	8.25	287.29
YEAR	5.89	8.84	9.05	9.63	8.55	272.18
% change from '87	1.6	7.6	-1.1	2.7	-2.4	-5.1
1989:1	5.96	8.78	8.70	9.54	8.40	286.43
2	6.08	8.97	9.01	9.68	8.49	285.52
3	6.21	9.16	9.21	9.78	8.76	298.97
4	6.28	9.27	9.48	9.84	8.86	300.51
YEAR	6.13	9.04	9.10	9.71	8.63	292.86
% change from '88	4.1	2.4	.5	.8	.9	7.6
1990:1	6.34	9.32	9.52	9.90	8.91	301.43
2	6.41	9.47	9.56	9.92	8.94	302.71
3	6.58	9.50	9.64	9.98	8.76	311.46
4	6.71	9.50	9.60	9.63	8.32	317.28
YEAR	6.51	9.45	9.58	9.86	8.73	308.22
% change from '89	6.2	4.4	5.3	1.5	1.2	5.2

*Historical data. R = Revised. P = Preliminary.

2.0 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, comparisons of accuracy of the Money Supply M1 in 1987:4 has been selected. Actual number is in the Federal Reserve Bulletin, May 1988 issue, Table 1.2 (Board of Governors of the Federal Reserve System, Washington, D.C., monthly). Forecast data are in The Journal of Business Forecasting Methods & Systems, Vol. 5, No. 4, pp. 36-42, Winter 1986/87.

TABLE 2.0

COMPARISONS OF ACCURACY OF PREDICTIONS
(Money Supply M1, bil. $, 1987:4)
Actual figure: 753.2

Forecaster	Date of Forecast	Forecast	Accuracy %
AmeriTrust, Cleveland	12/86	775.0	+2.9
Core State Financial Corp., Philadelphia	12/86	782.0	+3.8
Fidelity Bank, Philadelphia	12/86	818.0	+8.6
First National Bank of Chicago, Chicago	12/86	793.1	+5.3
First Pennsylvania Bank, Philadelphia	12/86	781.4	+3.7
Irving Trust, New York	12/86	800.0	+6.2
LaSalle National Bank, Chicago	12/86	795.0	+5.5
KEDI, Inc., Kent	12/86	756.5	.4
Marine Midland Bank, New York	12/86	790.8	+5.0
Shawmut of Boston, Boston	12/86	776.0	+3.0
Valley National Bank, Arizona	12/86	779.5	+3.5
Harris Trust & Savings Bank, Chicago	12/86	812.4	+7.9
Metropolitan Life Ins. Co.	12/86	775.5	+3.0
Prudential	12/86	777.6	+3.2

3.00 HISTORICAL DATA SOURCES

For reader's convenience listed below are sources of historical data series for the forecasts appearing in the Survey. The first column of the following table refers to the table in this Survey, the second column to the name of forecast series, and the third column identifies the source of historical data. The sources are: **Survey of Current Business** referred to as SCB (monthly, U. S. Department of Commerce, Washington, D.C.), **Federal Reserve Bulletin,** FRB, (Board of Governors of the Federal Reserve System, Washington, D.C. monthly), **Index of Industrial Production,** G.12.3 Release, IIP, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly.)

TABLE 3.00

HISTORICAL DATA SOURCES

Table Number	Data Series	Source
1.11 Selected Indicators of Real Growth I.	Gross national product, 1982 $	SCB, Table 1.2
	Index of industrial production	IIP, p. 2.
	Unemployment rate	SCB, Blue pages
	Capacity utilization rate	FRB, Table 2.11
	Private housing starts	SCB, Blue pages
	Car sales	SCB, Blue pages
1.12 Selected Indicators of Real Growth II.	Personal Cons. expend: Durables,	SCB, Table 1.1
	Nondurables	SCB, Table 1.1
	Services	SCB, Table 1.1
	Retail sales: Total	SCB, Blue pages
	Durables	SCB, Blue pages
	Nondurables	SCB, Blue pages
1.12 Real GNP	Gross national product, 1982 $	SCB, Table 1.2
	Personal consumpt. expenditures	SCB, Table 1.2
	Gross private dom. investment	SCB, Table 1.2
	Net exports	SCB, Table 1.2
	Federal purchases	SCB, Table 1.2
	State and local purchases	SCB, Table 1.2
1.21 Prices	Consumer price index	SCB, Blue pages
	Producer price index	SCB, Blue pages
	Implicit price deflators: GNP	SCB, Table 7.1
	Personal consumpt. expenditures	SCB, Table 7.1
	Federal purchases	SCB, Table 7.1
	State and local purchases	SCB, Table 7.1
1.22 Nominal GNP	Gross national product	SCB, Table 1.1
	Personal consumpt. expenditures	SCB, Table 1.1
	Gross private dom. investment	SCB, Table 1.1
	Net exports	SCB, Table 1.1
	Federal purchases	SCB, Table 1.1
	State and local purchases	SCB, Table 1.1

(Table 3.00 continues on the following page.)

TABLE 3.00

HISTORICAL DATA SOURCES (CONTINUED)

Table Number	Data Series	Source
1.30 Employment and Labor	Population	SCB, Blue pages
	Civilian labor force	SCB, Blue pages
	Employment	SCB, Blue pages
	Agriculture	SCB, Blue pages
	Non-agriculture	SCB, Blue pages
	Unemployment rate	SCB, Blue pages
1.41 Housing	Single-family housing starts	SCB, Blue pages
	Multifamily housing starts	SCB, Blue pages
	Mobile home shipments	SCB, Blue pages
	Permits authorized	SCB, Blue pages
	1-family unit price, new	FRB, Table 2.14
	1-family unit price, existing	FRB, Table 2.14
1.42 Autos	Passenger cars: Total sales	SCB, Blue pages
	Domestic	SCB, Blue pages
	Imported	SCB, Blue pages
	Dealers inventories	SCB, Blue pages
	Factory shipments	SCB, Blue pages
	Light-duty truck sales	SCB, Blue pages
1.50 Federal State & Local Budgets	Federal govt: Income taxes	SCB, Table 3.2
	Corporate profit tax accruals	SCB, Table 3.2
	Surplus/Deficit	SCB, Table 3.2
	State & local govt:Income taxes	SCG, Table 3.3
	Corporate profit tax accruals	SCG, Table 3.3
	Surplus/Deficit	SCB, Table 3.3
1.60 Income	Personal income	SCB, Table 2.1
	Personal disposable income	SCB, Table 2.1
	Compensation of employees	SCB, Table 1.11
	Corporate after tax profits	SCB, Table 1.11
	Personal saving	SCB, Table 2.1
	Average weekly earnings	SCB, Blue pages
1.70 Money and Credit	Currency and demand deposits, M1	FRB, Table 1.21
	Time deposits, adjusted, M2	FRB, Table 1.21
	Consumer installment credit	FRB, Table 1.55
	Commercial and industrial loans	FRB, Table 1.23
	Large denomination time deposits	FRB, Table 1.21
	Mortgages at S&L Associations	FRB, Table 1.54
1.80 Interest Rates, Yields, & Securities Prices	Treasury bills (3 mo) yield	FRB, Table 1.35
	Prime rate	FRB, Table 1.33
	Conventional mortgage rate	FRB, Table 1.53
	Aaa corporate bonds rate	FRB, Table 1.35
	20 years government bonds yield	FRB, Table 1.35
	Standard & Poor's 500 average	FRB, Table 1.36

7/22/88

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KEDI ECONOMIC SURVEY

July 1, 1988

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SOURCES:

U.S.Department of Commerce third estimate of 1988:1, National Income and Product data, June 20, 1988.

Board of Governors of the Federal Reserve System release of the Index of Industrial Production, June 1988.

The latest available data on prices, employment, industrial and financial developments.

0.00 INTRODUCTION

0.01 EXECUTIVE SUMMARY

HIGHLIGHTS

Real Growth

Recently released indicators that point to the pace of the U.S. economy confirm the expectations of continuous expansion.

Prices

Excluding food and energy, consumer prices were up only .2% in May--the smallest increase since an identical rise in February.

Employment & Labor

Forecast data on the unemployment rate reflect the rapidly growing economy in the second half of this year and beyond.

Housing

The May sales of existing homes jumped for the fourth month in a row and sales of new homes remained fairly high.

Automobiles

Sales of cars and trucks reached 15.9 mil. units (s.a.) in the first six months of this year--second best record.

Budgets

KEDI does not anticipate that the balanced budget target for 1993 will be achieved, assuming no new taxes are imposed.

Income

In May, personal income rose to a seasonally adjusted rate of $4.954 trillion from a revised $3.941 the month before.

Money & Credit

Forecast data for credit aggregates show persistent increases in all categories for the rest of this year.

Interest Rates, Yields & Securities Prices

KEDI anticipates no changes in credit policy resulting from the upcoming meeting of the Federal Reserve Open Market Committee.

0.02 ASSUMPTIONS

	Last Update
1. In 1988, the weighted price of oil will increase slightly as compared to 1987. It will continue increasing in the 1989-1990 period.	April 1986
2. A longer-lasting relaxation in monetary and credit policies will last throughout 1988. More tightening is not expected earlier than in 1989.	February 1988
3. In 1988 and 1989 good crops in most of the main producing countries are anticipated.	June 1988
4. Foreign trade with China will expand in 1988 and following years.	May 1987
5. Average rates of growth in 1985-1990 in major industrial countries are anticipated: West Germany 3.0%; Italy 2.1% Great Britian 2.1%; France 2.0%; Japan 3.1%; Canada 2.6%	September 1987
6. No drastic changes in international relationships are anticipated.	Permanent Assumption

0.03 FORECAST HIGHLIGHTS

* Table 0.00 on page 3 shows forecast data of selected indicators of the July 1988 KEDI forecast.	
* In 1988 solid growth is expected. It will slow down a bit in the first half of 1989.	January 1987
* The upward trend will continue throughout 1990-1991.	January 1987
* Forecast data for 1988-1991 do not point to to recession or major downturn.	January 1987
* In 1988 interest rates will remain, in average, at low levels throughout most of the year. Some increases are anticipated in 1989.	March 1988
* Federal budget deficits will keep declining in in 1988 and the following years.	January 1987
* The 1987 export-import gap will start closing to a more acceptable level.	January 1987

TABLE 0.00

KEDI FORECAST HIGHLIGHTS

Data for 1988, 1989 and 1990 are on pages indicated below.

Indicator	Unit	1987	1991	1992	1993
Gross national	bil. 82$	3821.0	4267.8	4374.5	4488.2
product, p. 5	% change	2.9	2.9	2.5	2.6
Index of indust.	1977=100	129.8	147.2	152.0	157.2
prod., p. 5	% change	3.8	3.2	3.3	3.4
Capacity	%	82.6	83.1	81.7	81.3
utiliz., p. 5	% change	3.8	.2	-1.6	-.5
Unemployment	%	6.2	5.7	5.5	5.4
rate, p. 5	% change	-12.0	.6	-1.2	-1.1
Private housing	mil.units	1.6	2.0	1.9	2.0
starts, p. 5	% change	-5.8	4.7	-2.0	3.5
Car sales,	mil.units	10.3	11.5	11.6	12.0
p. 5	% change	-10.7	3.9	1.0	4.0
Implicit GNP	1982=100	118.8	136.4	141.4	146.6
price def.,p.11	% change	4.0	3.5	3.6	3.7
Consumer Price	1967=100	113.7	134.5	138.8	143.8
Index, p. 11	% change	3.7	3.9	3.2	3.6
Prod.Price Index	1967=100	105.5	125.7	131.3	136.3
(fin.goods),p.11	% change	2.3	4.5	4.5	3.8
Federal Deficit	bil. $	-151.4	-100.8	-81.7	-65.6
p. 21	% change	-27.4	-10.4	-19.0	-19.7
Personal Income	bil. $	3746.5	5034.4	5381.8	5780.1
p. 23	% change	6.0	7.8	6.9	7.4
Prime Rate	%	8.2	9.2	9.9	10.7
p. 27	% change	-1.5	-3.0	7.5	8.0
Mortgage Rate	%	9.2	10.2	9.9	10.1
p. 27	% change	-6.8	6.0	-2.7	1.8
Currency+demand	bil. $	744.0	907.5	967.4	1033.1
deposits , p. 25	% change	11.5	6.0	6.6	6.8
Commercial+ind.	bil. $	540.1	596.6	586.6	3602.8
loans, p. 25	% change	5.1	3.0	2.9	2.1
Raw steel	mil.sh.tons	89.2	94.6	96.2	95.1
production	% change	5.4	.5	-1.1	-.1
Electric power	mil.kw-hr	2572	3055.8	3168.9	3317.8
production	% change	4.7	3.5	3.7	4.7
Bituminous coal	mil.sh.tons	913	936	973.3	984.1
production	% change	2.5	1.0	1.3	1.5
Crude oil	avg. daily bbl.	3033	3142	3176.9	3218.2
output	% change	-.3	2.0	1.1	1.3
Retail sales	bil. $	1510.6	1985.6	2122.6	2271.1
p. 7	% change	5.8	7.2	6.9	7.0

Numbers in "% change" rows show percent changes over the previous year.

1.10 REAL GROWTH, CONSUMER SPENDING, AND RETAIL SALES

1.11 REAL GROWTH

See Table 1.11
Page 5

1988
FORECAST
DATA

Percent Change from June 1988 Forecast

+ 1.65%	Autos
+ .35%	Index Indus. Prod.
+ .15%	Capac. Util.
- .45%	GNP
- .68%	Unemployment
- 7.31%	Private Housing Starts

RECENTLY RELEASED INDICATORS THAT POINT TO THE PACE OF THE U.S. ECONOMY IN THE NEXT SIX TO TWELVE MONTHS CONFIRM THE EXPECTATIONS OF A CONTINUOUS EXPANSION: HIGHER EMPLOYMENT, HIGHER INCOME AND HIGHER OUTPUT.

* Machine tool orders in May jumped 72% from 1987 to a seven-year high.

* Unfilled orders in manufacturing increased in May to $418.69 bil., s.a., from $418.53 bil. a month earlier.

* Construction spending rose in May. The latest release of the index of the National Association of Purchasing Managers points to a strong growth in months ahead. The index jumped to 59.3% in June from 55.1% for May.

* Preliminary estimates of the second quarter 1988 profits of the troubled oil industry, and the automobile industry show significant gains and point to healthy performance of both industries ahead.

* Data on sales of existing and new homes, and housing starts point to a rebound in the housing industry.

TABLE 1.11
SELECTED INDICATORS I.

Quarterly data are seasonally adjusted at annual rates.

INDICATOR	GNP	Index of ind. prod.	Unem-ployment	Capacity util'n rate	Private housing starts	Auto sales
Unit	$82 bil.	1977=100	%	%	mil.	mil.
Year & Qtr.						
1987*	3821.0 R	129.8	6.20	82.6	1.621	10.3
1988:1	3915.4 R	134.5 R	5.73 R	82.6 R	1.485 R	10.7 R
2	3931.2	136.0 P	5.47	83.0	1.505	10.6
3	3949.5	136.8	5.34	83.1	1.639	11.0
4	3970.4	137.4	5.39	83.0	1.674	10.8
YEAR	3941.6	136.2	5.48	82.9	1.576	10.8
% change from '87	3.2	4.9	-11.6	.4	-2.8	4.6
1989:1	4000.7	137.8	5.47	83.0	1.612	10.2
2	4023.1	138.9	5.58	82.9	1.747	10.9
3	4049.4	139.4	5.80	82.9	1.893	11.3
4	4070.1	139.9	5.75	82.7	1.835	10.8
YEAR	4035.8	139.0	5.65	82.9	1.772	10.8
% change from '88	2.4	2.1	3.1	-.1	12.4	.2
1990:1	4113.4	140.3	5.78	82.8	1.680	10.8
2	4136.2	141.0	5.60	82.9	1.869	10.9
3	4161.1	143.4	5.57	82.9	2.040	11.4
4	4179.3	145.7	5.54	83.0	1.903	11.0
YEAR	4147.5	142.6	5.62	82.9	1.873	11.0
% change from '89	2.8	2.6	-.5	.0	5.7	2.1

*Historical data.
R = Revised. P = Preliminary.

1.12 CONSUMER SPENDING AND RETAIL SALES

See Table 1.12 - page 7

1988
FORECAST
DATA

Percent Change
from
June 1988
Forecast

+ 1.17%	Retail Sales Durable
+ .69%	Retail Sales Total
+ .61%	Retail Sales Nondurable
+ .04%	Pers. Con. Exp. Nondurable
- .16%	Pers. Cons Exp. Durable
- 1.13%	Pers. Cons Exp. Services

IN MAY, PERSONAL CONSUMPTION EXPENDITURES INCREASED .5% AFTER RISING A REVISED .4% IN APRIL AND .7% IN MARCH.

That is a moderate pace that does not indicate any consumer pause. Forecast data indicate modest but persistent increases for the rest of this year and through 1989-1990.

The expected June pick-up in retail sales is considered here the signal that there is a step-up in consumer spending and points to a retail turnaround in the fall. Forecast data on retail sales in the second half of this year indicate continuous strong sales of autos, automotives, furniture, and home goods, and higher gains in apparel and other soft goods.

TABLE 1.12

CONSUMER SPENDING AND RETAIL SALES

Quarterly data are seasonally adjusted at annual rates.

	--Personal Cons. Expend.-			*------Retail Sales-------*		
INDICATOR	Durables	Nondurables	Services	Total	Durables	Nondurables
Unit	bil.$	bil.$	bil.$	bil.$	bil.$	bil.$
Year & Qtr.						
1987*	413.7	982.9	1571.2	1510.6	559.1	951.5
1988:1	424.0 R	998.4 R	1645.9 R	1565.2 R	596.1 R	969.1 R
2	434.2	1019.7	1766.8	1624.8	598.7	1026.1
3	448.6	1041.8	1684.2	1644.6	619.4	1025.2
4	457.1	1061.4	1701.6	1679.7	634.6	1045.1
YEAR	441.0	1030.3	1699.6	1628.6	612.2	1016.4
% change from '87	6.6	4.8	8.2	7.8	9.5	6.8
1989:1	459.8	1070.4	1748.3	1699.6	619.8	1079.8
2	469.3	1089.5	1778.3	1728.4	637.2	1091.2
3	477.5	1114.9	1884.5	1769.7	666.9	1102.8
4	484.6	1122.5	1933.7	1793.6	689.2	1104.4
YEAR	472.8	1099.3	1836.2	1747.8	653.3	1094.5
% change from '88	7.2	6.7	8.0	7.3	6.7	7.7
1990:1	490.2	1132.6	1993.0	1817.5	698.5	1119.0
2	497.7	1143.5	2060.8	1849.7	717.4	1132.3
3	509.6	1156.0	2115.8	1884.5	735.2	1149.3
4	523.3	1168.2	2152.5	1917.5	754.7	1162.8
YEAR	505.2	1150.1	2080.5	1867.3	726.5	1140.8
% change from '89	6.9	4.6	13.3	6.8	11.2	4.2

---

* Historical data. R = Revised. P = Preliminary.

1.13 REAL GNP

See Table 1.13
Page 9

1988
FORECAST
DATA

Percent Change
from
June 1988
Forecast

+ .89%	State Local Purch.
+ .04%	Grossd. Private Dom. Inv.
- .34%	Net Exports
- .45%	GNP
- .68%	Pers. Cons. Expend.
- 1.29%	Federal Govt. Purch.

LONG-TERM FORECAST DATA OF THE ECONOMY POINT TO A SUSTAINED GROWTH, CONTRARY TO PREDICTIONS OF SOME PERENIAL FORECASTERS OF CATACLYSMIC ECONOMIC DOOM THE U.S. ECONOMY WILL EXPERIENCE THIS OR THE NEXT YEAR.

GNP (bil. const. $)
Generated by segments of the economy.

	1987	1988	1989	1990
Agriculture	101.0	89.4	102.8	104.3
Mining	120.3	124.8	125.9	127.8
Construction	173.5	177.3	179.2	186.9
Manufact'g	843.1	879.5	904.0	839.8
Trans/Util.	333.0	340.2	343.3	347.2
Trade	661.1	686.2	698.4	717.5
Finance	568.6	583.4	590.3	602.8
Services	586.9	618.6	643.0	668.4
Government	410.1	415.2	419.7	423.5
Rest of the world	23.4	27.0	29.2	30.3
TOTAL	3821.1	3941.6	4035.8	4147.5

TABLE 1.13
REAL GNP
Quarterly data are seasonally adjusted at annual rates.

	-----------Gross National Product----------------					
INDICATOR	Total	Pers. cons. expend.	Gross pvt.dom. investm.	Net exports	Fed. govt. purch.	State local purch.
Unit	$82 bil.	$82 bil.	$82 bil.	$82 bil.	$82 bil.	$82 bil.
Year & Qtr.						
1987*	3821.0 R	2497.2	687.6	-135.5	336.0	435.8
1988:1	3915.4 R	2528.0 R	741.8 R	-120.3 R	322.7 R	443.2 R
2	3931.2	2540.0	739.8	-118.9	325.2	445.1
3	3949.5	2549.9	740.7	-116.1	328.5	446.5
4	3970.4	2563.8	742.6	-113.5	330.1	447.4
YEAR	3941.6	2545.8	741.2	-117.2	326.6	445.6
% change from '87	3.2	1.9	7.8	-13.5	-2.8	2.2
1989:1	4000.7	2585.6	746.4	-111.5	332.4	447.8
2	4023.1	2599.0	749.5	-108.6	334.2	449.0
3	4049.4	2616.2	752.5	-107.5	335.0	453.2
4	4070.1	2632.6	750.1	-103.7	336.4	454.7
YEAR	4035.8	2601.4	749.6	-107.8	334.5	451.2
% change from '88	2.4	2.2	1.1	-8.0	2.4	1.3
1990:1	4113.4	2643.1	755.1	-99.8	337.0	456.1
2	4136.2	2678.7	758.4	-96.5	338.4	457.2
3	4161.1	2695.2	758.2	-91.2	338.7	460.2
4	4179.3	2703.2	760.3	-85.3	339.0	462.1
YEAR	4147.5	2680.1	758.0	-93.2	338.3	458.9
% change from '89	2.8	3.0	1.1	-13.6	1.1	1.7

*Historical data.
R = Revised. P = Preliminary.

1.20 PRICES AND NOMINAL GNP

1.21 PRICES

See Tables 1.21 - page 11

1988
FORECAST
DATA

Percent Change
from
June 1988
Forecast

+	.15%	Consumer Price Index
+	.14%	Pers. Cons. Expend.
+	.07%	Producer Price Index
+	.04%	Federal Govt. Purch.
-	.02%	GNP
-	.04%	State Local Purch.

EXCLUDING FOOD AND ENERGY, CONSUMER PRICES WERE UP ONLY .2% IN MAY--THE SMALLEST INCREASE SINCE AN IDENTICAL RISE IN FEBRUARY.

The May figure for the CPI was 117.5 compared to April's 117.1--a meager .3% rise in consumer inflation. This indicates that price increases at the consumer level will remain moderate in the months ahead, despite some surge in food prices.

There is virtually no evidence that would convincingly support assertions of some over-worried economists who foresee a rampant, 6% or higher inflation in the near future.

* This is no strong evidence of a tight labor market that would push up wages.

* There have been no significant price increases in manufacturing industries running at near-full capacity utilization.

* Low rate of exchange of the dollar has not induced any significant increases in prices of imported goods.

* Estimates of wage increases in current and currently negotiated contracts point to 2.0-2.5% annual wage increases failing to keep up with the expected 3-4% annual rate of inflation.

TABLE 1.21
PRICES

Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

	---Indexes--		*-------Price deflators--------*			
INDICATOR	Cons. price index n.s.a.**	Prod. price index n.s.a.**	Gross Nat'l Prod.	Pers. cons. expend.	Fed. govt. purch.	State local purch.
Unit	1982-4= 100	1982= 100	1982= 100	1982= 100	1982= 100	1982= 100
Year & Qtr.						
1987*	113.6 R	105.4 R	117.5	118.8	112.9	124.7
1988:1	115.1 R	106.1 R	119.1 R	121.4 R	116.2 R	128.6 R
2	117.5	108.1	121.1	126.8	116.3	129.9
3	118.9	109.5	122.5	124.5	117.5	131.4
4	119.8	112.6	123.6	125.6	119.0	133.1
YEAR	118.1	109.1	121.6	124.6	117.2	130.8
% change from '87	3.9	3.5	3.5	4.9	3.9	4.9
1989:1	121.9	113.9	124.0	126.8	120.3	133.9
2	122.9	115.1	125.1	128.4	121.1	134.6
3	124.5	115.8	127.4	132.9	123.0	137.2
4	126.1	116.1	128.6	134.5	122.4	138.3
YEAR	123.8	115.2	126.3	130.7	121.7	136.0
% change from '88	4.9	5.6	3.9	4.9	3.8	4.0
1990:1	127.3	118.5	130.3	136.8	123.8	139.5
2	128.8	119.4	131.2	138.2	125.0	140.8
3	129.9	120.8	132.1	140.3	127.6	142.0
4	131.7	122.4	133.7	142.2	129.0	143.6
YEAR	129.4	120.3	131.8	139.4	126.3	141.5
% change from '89	4.5	4.4	4.4	6.7	3.8	4.0

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*Historical data. R = Revised. P = Preliminary.

**CPI: All Urban Consumers; PPI: Finished Goods.

1.22 NOMINAL GNP

See Table 1.22 - page 13

THE THIRD REVISION OF THE U.S. DEPARTMENT OF COMMERCE OF THE GNP FOR 1988:1 HAS NOT RESULTED IN SIGNIFICANT DAMAGES WHEN COMPARED TO THE DATA OF THE SECOND REVISION:

1988:1 NOMINAL GNP (BIL. $)

	2nd Revision	3rd Revision	Difference
GNP	4668.7	4665.1	-3.6
Personal Cons.Exp.	3071.9	3068.3	-3.6
Gross Pvt. Dom. Inv.	756.7	762.7	6.0
Net Exp.	-109.4	-111.1	-1.7
Fed. Govt. Purchases	379.7	375.1	-4.6
State & Local Purchases	569.8	570.0	.2

Data may be further revised in connection with the U.S. Department of Commerce upcoming annual revision of the National Income and Product data.

1988
FORECAST
DATA

Percent Change from June 1988 Forecast

+	.29%	State Local Purch.
+	.23%	Gross Private Dom. Inv.
-	.16%	Net Exports
-	.45%	GNP
-	.69%	Pers. Cons. Expend.
-	.04%	State Local Purch.

TABLE 1.22
NOMINAL GNP

Quarterly data are seasonally adjusted at annual rates.

	*-----------Gross National Product					---------------*
INDICATOR	Total	Pers. cons. expend.	Gross pvt. dom invest.	Net exports	Fed. govt. purch.	State local purch.
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	bil. $
Year & Qtr.						
1987*	4488.5	2967.8 R	717.5	-119.6	379.4	543.4
1988:1	4665.1 R	3068.3 R	762.7 R	-111.1 R	375.1 R	570.0 R
2	4760.7	3220.7	763.9	-110.2	378.2	578.2
3	4838.1	3174.6	762.8	-105.4	386.0	586.7
4	4907.4	3220.1	766.0	-100.2	392.8	595.5
YEAR	4793.0	3168.3	763.9	-106.7	383.0	582.6
% change from '87	6.8	6.8	6.5	-10.8	1.0	7.2
1989:1	4960.9	3278.5	768.4	-97.4	399.9	599.6
2	5032.9	3337.1	767.2	-94.3	404.7	604.4
3	5158.9	3476.9	773.8	-90.7	412.1	621.8
4	5234.1	3540.8	774.6	-88.4	411.8	628.9
YEAR	5096.7	3408.4	771.0	-92.7	407.1	613.6
% change from '88	6.3	7.6	.9	-13.1	6.3	5.3
1990:1	5359.8	3615.8	778.7	-83.6	417.2	636.3
2	5426.7	3702.0	779.3	-80.5	423.0	643.7
3	5496.8	3781.4	782.2	-78.3	432.2	653.5
4	5587.7	3844.0	785.5	-77.2	437.3	663.6
YEAR	5467.7	3735.8	781.4	-79.9	427.4	649.3
% change from '89	7.3	9.6	1.4	-13.8	5.0	5.8

*Historical data. R = Revised. P = Preliminary.

1.30 EMPLOYMENT AND LABOR

See Table 1.30 - page 15

1988
FORECAST
DATA

Percent Change
from
June 1988
Forecast

+ .02%	Population
0.00%	Agriculture
- .10%	Civilian Labor Force
- .12%	Total Employed
- .12%	Non-Agri.
- .68%	Unemployment rate

FORECAST DATA ON THE UNEMPLOYMENT RATE REFLECT THE RAPIDLY GROWING ECONOMY IN THE SECOND HALF OF THIS YEAR AND BEYOND.

The June unemployment rate is expected to reach a record level due to a strong influx of graduates. The July rate is forecasted to increase slightly, but then will decline throughout the balance of this year.

So far, there are no indications of any bottleneck of any size in the labor market that would force employers to offer higher wages and thus to induce the upward pressures on prices.

For the rest of this year, the ratio of increases in employment in goods-producing and service-producing industries is forecasted as 2:8, and for 1989 to change to 1:9.

TABLE 1.30
EMPLOYMENT & LABOR

Quarterly data are seasonally adjusted at annual rates.

			-------Employment-------			
INDICATOR	Population	Civil. labor force	Total	Agricult.	Non-agric.	Unemployment rate
Unit	mil.	mil.	mil.	mil.	mil.	%
Year & Qtr.						
1987*	244.7	119.9	113.4 R	3.2	109.2 R	6.20
1988:1	247.9 R	121.1 R	114.2 R	3.2 R	111.0 R	5.73 R
2	249.6	121.6 P	114.9	3.2	111.7	5.47
3	250.4	122.4	115.9	3.2	112.7	5.34
4	251.5	123.2	116.6	3.2	113.4	5.39
YEAR	249.8	122.1	115.3	3.2	112.1	5.48
% change from '87	2.1	1.8	1.7	0.0	2.6	-11.57
1989:1	253.9	123.6	116.8	3.2	113.6	5.47
2	254.3	124.2	117.3	3.2	114.1	5.58
3	255.1	125.0	117.8	3.2	114.5	5.80
4	256.0	125.7	118.5	3.2	115.3	5.75
YEAR	254.8	124.6	117.6	3.2	114.4	5.65
% change from '88	2.0	2.1	2.0	0.0	2.1	3.06
1990:1	257.4	126.3	119.0	3.2	115.8	5.78
2	258.9	127.2	120.1	3.2	116.9	5.60
3	260.2	128.0	120.9	3.2	117.7	5.57
4	261.8	128.5	121.4	3.2	118.2	5.54
YEAR	259.6	127.5	120.3	3.2	117.1	5.62
% change from '89	1.9	2.3	2.3	0.0	2.4	-.49

*Historical data. R = Revised. P = Preliminary.

1.41 HOUSING

See Table 1.41 - Page 17

1988
FORECAST
DATA

Percent Change
from
June 1988
Forecast

+ 1.81%	1-Family Unit price New
+ .20%	1-Family Unit price Existing
- 5.23%	Single Family Housing Starts
- 5.51%	Mobile Home Shipments
- 5.82%	Permits Issued
- 7.12%	Multiple Family Housing Starts

THE MAY SALES OF EXISTING HOMES JUMPED FOR THE FOURTH MONTH IN A ROW AND SALES OF NEW HOMES REMAINED FAIRLY HIGH.

The seasonally adjusted annual rate for all home sales in May was 4.280 mil., compared to 4.180 mil. in April and 3.780 mil. in January.

Since the housing starts this year were sluggish, the gap between sales and actual starts points to a rebound in starts, mainly single-family housing in coming months.

Apartment housing starts will remain sluggish for the rest of this year, however. These starts will go up slightly in 1989 but will be significant until 1990.

TABLE 1.41
HOUSING

Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

INDICATOR Unit	Single family housing starts mil.	Multi-family housing starts mil.	Mobile home shipments mil.	Permits authorized mil.	1-Fam. unit price new** tho. $	1-Fam. unit price exist** tho. $
Year & Qtr.						
1987*	1.146	.474 R	.233	1.535 R	127.9 R	106.2 R
1988:1	1.098 R	.387 R	.207 R	1.384 R	139.2 R	109.8 R
2	1.076	.429	.227	1.460	139.7	112.6
3	1.185	.454	.244	1.541	141.1	115.0
4	1.209	.465	.248	1.590	143.6	116.3
YEAR	1.142	.434	.231	1.494	140.9	113.4
% change from '87	-.3	-8.5	-.6	-2.7	10.2	6.8
1989:1	1.160	.452	.232	1.436	145.3	119.8
2	1.241	.506	.245	1.604	148.9	120.9
3	1.315	.578	.261	1.748	152.4	124.7
4	1.282	.553	.270	1.759	155.0	127.6
YEAR	1.250	.522	.252	1.637	150.4	123.2
% change from '88	9.4	20.4	8.9	9.6	6.7	8.7
1990:1	1.184	.496	.238	1.524	157.1	130.8
2	1.296	.573	.256	1.689	159.7	132.4
3	1.436	.604	.298	1.819	165.3	135.7
4	1.311	.592	.284	1.843	168.7	137.0
YEAR	1.307	.566	.269	1.719	162.7	134.0
% change from '89	4.6	8.4	6.7	5.0	8.2	8.7

*Historical data. R = Revised. P = Preliminary.

**Average. Not seasonally adjusted.

1.42 AUTOMOBILES

See Table 1.42 - page 19

1988
FORECAST
DATA

Percent Change
from
June 1988
Forecast

+ 1.67%	Domestic Car Sales
+ 1.25%	Total Light Truck Sales
+ .95%	Total Car Sales
0.00%	Imported Car Sales
0.00%	Dealer Inventory
0.00%	Shipments

IN THE FIRST HALF OF THIS YEAR, SALES OF CARS AND TRUCKS REACHED 15.9 MILLION UNITS (SEASONALLY ADJUSTED), THE SECOND BEST FIGURE COMPARED TO THE RECORD 16.3 MILLION IN 1986.

The next six months are expected to be extremely good as well.

The price outlok for the rest of this year suggests no significant price and interest rates incentives for the 1988 model cars since inventories are well below normal. However, one can expect strong incentives in the Fall on 1989 models because strong sales of 1988 models could mean a poor start for the new models.

TABLE 1.42
AUTOMOBILES

Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

INDICATOR Unit	Total car sales mil.	Car sales dom. mil.	Car sales imp. mil.	Dealer car inventory n.s.a. ** mil.	Factory car shipments mil.	Total light truck sales mil.
Year & Qtr.						
1987*	10.3	7.1	3.2	1.7	4.1 R	3.8
1988:1	10.7 R	7.6 R	3.1 R	1.6 R	7.5 R	4.1 R
2	10.6 P	7.5 P	3.1 P	1.6	7.6	4.0
3	11.0	7.8	3.2	1.8	7.9	4.2
4	10.8	7.6	3.2	1.6	7.8	3.9
YEAR	10.6	7.6	3.2	1.6	7.7	4.0
% change from '87	2.9	7.4	0.0	-5.9	87.8	6.6
1989:1	10.2	7.0	3.2	1.7	7.0	3.8
2	10.9	7.7	3.2	1.8	7.7	4.1
3	11.3	8.1	3.2	1.7	8.2	4.3
4	10.8	7.6	3.2	1.7	7.7	4.0
YEAR	10.7	7.5	3.2	1.7	7.7	4.0
% change from '88	.9	.9	0.0	6.2	-.6	0.0
1990:1	10.8	7.6	3.2	1.7	7.9	4.2
2	10.9	7.6	3.3	1.8	8.0	4.3
3	11.4	8.0	3.4	1.8	8.4	4.5
4	11.0	7.7	3.3	1.8	8.0	4.4
YEAR	11.0	7.7	3.3	1.8	8.1	4.3
% change from '89	3.0	-.1	3.1	5.9	5.6	7.4

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*Historical data. R = Revised. P = Preliminary.

**End of period data.

1.50 BUDGETS

See Table 1.50 - page 21

KEDI'S LONG-TERM FORECAST OF FEDERAL BUDGET DEFICITS PRESENTED BELOW SHOWS THAT THE BALANCED BUDGET TARGET FOR 1993 WILL BE HARDLY ACHIEVABLE. FORECAST ASSUMES NO NEW TAXES WILL BE ENACTED.

Federal budget deficit forecasts
(fiscal year, bil. $)

	OMB	CBO	GRH	KEDI
1988	147.0	157.0	144.0	154.0
1989	130.0	176.0	136.0	138.0
1990	104.0	1670.0	100.0	114.0
1991	79.0	158.0	64.0	93.0
1992	51.0	151.0	28.0	65.0
1993	23.0	134.0	0.0	47.0

OMB = Office of Management and Budget
CBO = Congressional Budget Office
GRH = Gramm-Rudman-Hollings targets

1988 FORECAST DATA

Percent Change from June 1988 Forecast

+ 5.90%	Federal Surplus/ Deficit
+ 1.26%	State Income Tax
+ .08%	Corporate Profit Tax Accrued
- .92%	Federal Income Tax
- 6.25%	State Local Corp. Tax Accrued
- 9.79%	State Surplus/ Deficit

TABLE 1.50
FEDERAL, STATE AND LOCAL BUDGETS

Quarterly data are seasonally adjusted at annual rates.

INDICATOR	FEDERAL			STATE AND LOCAL		
	Income taxes	Corp. profits tax accru.	Surplus /deficit	Income taxes	Corp. profits tax accru.	Surplus /deficit
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	bil. $
Year & Qtr.						
1987*	403.7	109.4	-151.4	161.1	26.9	44.0
1988:1	406.3 R	116.6 R	-151.8 R	170.5 R	27.7 R	45.8 R
2	413.3	120.5	-148.7	172.2	28.2	47.7
3	427.7	121.0	-146.1	176.1	30.0	50.8
4	440.2	124.3	-138.8	181.1	31.1	52.0
YEAR	421.9	120.6	-146.3	175.0	29.2	49.1
% change from '87	4.5	10.2	-3.3	8.6	8.7	11.5
1989:1	450.1	125.1	-131.2	183.5	32.1	54.1
2	454.5	127.6	-126.4	185.9	32.8	57.0
3	460.0	130.4	-115.2	188.9	33.7	59.0
4	467.8	133.3	-117.4	191.9	34.5	60.8
YEAR	458.1	129.1	-122.5	187.6	33.3	57.7
% change from '88	8.6	7.0	-16.3	7.2	13.8	17.6
1990:1	478.6	134.7	-114.1	193.4	35.0	61.7
2	485.7	135.1	-112.6	196.2	35.8	62.4
3	494.3	138.6	-114.3	199.7	37.0	63.0
4	501.6	142.4	-109.2	202.3	37.8	63.6
YEAR	490.1	137.7	-112.5	197.9	36.4	62.7
% change from '89	7.0	6.7	-8.2	5.5	9.4	8.6

*Historical data. R = Revised. P = Preliminary.

1.60 INCOME

See Table 1.60 - page 23

1988
FORECAST
DATA

Percent Change
from
June 1988
Forecast

+ .95%	Personal Savings
+ .05%	Average Weekly Earnings
+ .02%	Personal Disp. Income
- .03%	Personal Income
- .05%	Comp. of Employees
- 3.94%	Corp. After Tax Earnings

IN MAY, PERSONAL INCOME ROSE TO A SEASONALLY ADJUSTED RATE OF $4.954 TRILLION FROM A REVISED $3.941 TILLION A MONTH BEFORE. THAT IS A RATE OF .3%

Data indicate that Personal Disposable Income has been growing faster than PDI. In May it rose 1.5%. As seen in Table 1.6 on the following page, this favorable trend is expected to continue for the rest of the year and in the following years.

Forecast data for Personal Income and components for the rest of this year and for 1989-1990 show persistently strong gains due mainly to a growing number of employed persons rather than wage increases.

Forecast of corporate after tax profits shows that 1989 will be another boom year. Some slowdown is expected to take place in 1990.

TABLE 1.60
INCOME
Quarterly data are seasonally adjusted at annual rates.

INDICATOR	Pers. income	Pers. disp. income	Comp. of empl.	Corp. after tax profits	Pers. saving	Avg. week earn.
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	$
Year & Qtr.						
1987*	3746.5	3181.7	2647.6	137.8	119.0	405.0
1988:1	3899.1R	3322.6R	2764.5R	144.2R	155.8R	410.8R
2	3981.7	3396.2	2801.2	150.1	149.5	415.6
3	3931.0	3327.2	2875.3	153.1	132.7	420.1
4	4009.0	3387.7	2930.6	157.4	138.6	423.9
YEAR	3955.2	3358.5	2842.9	151.2	144.2	417.6
% change from '87	5.6	5.6	7.4	9.7	21.1	3.1
1989:1	4177.2	3543.6	2964.4	160.4	137.8	428.8
2	4241.2	3600.8	2966.5	164.0	140.4	429.6
3	4400.2	3751.3	3035.1	170.2	145.8	434.3
4	4471.7	3812.0	3080.3	172.0	145.8	437.9
YEAR	4322.6	3676.9	3011.6	166.7	142.5	432.6
% change from '88	9.3	9.5	5.9	10.2	-1.2	3.6
1990:1	4535.6	3863.6	3126.2	143.5	139.2	440.3
2	4628.7	3946.8	3172.5	185.3	147.5	443.3
3	4719.5	4025.5	3216.9	188.7	150.3	448.7
4	4796.9	4093.0	3262.7	194.5	153.4	452.2
YEAR	4670.2	3982.2	3194.6	178.0	147.6	446.1
% change from '89	8.0	8.3	6.1	6.8	3.6	3.1

*Historical data. R = Revised. P = Preliminary.

1.70 MONEY AND CREDIT

See Table 17.0 - page 25

1988
FORECAST
DATA

Percent Change
from
June 1988
Forecast

+ 1.84%	Time Deposits
+ 1.00%	Consumer & Demand Deposits
+ .39%	Large Denom. Time Deposits
+ .03%	Consumer Install. Credit
- .18%	Comm. & Indust. Loans at Banks
- 1.61%	Mortg. at savings inst'ns

FORECAST DATA FOR CREDIT AGGREGATES SHOW PERSISTENT INCREASES IN ALL CATEGORIES FOR THE REST OF THIS YEAR, NOTABLE CONSUMER INSTALLMENT CREDIT, COMMERCIAL AND INDUSTRIAL LOANS, SECURITY CREDIT, AND CORPORATE BONDS.

In 1989 resumption of the growth of residential mortgages, continuous gains in consumer credit, and slowing down in the growth of commercial and industrial loads and the corporate bonds market is expected.

It is anticipated that the Federal Reserve Policy with regard to monetary aggregates will allow only a moderate growth of M1, and regular increases of M2 within 8-10%.

TABLE 1.70
MONEY & CREDIT

Data for "Currency and demand deposits, M1", and "Time deposits, adjusted, M2" are averages of daily figures; other data are end of period figures.

INDICATOR	Currency and demand deposits M1, s.a.	Time deposit adjust. M2,s.a.	Cons. instal. credit n.s.a. **	Comm.& indus. loans at banks s.a.	Large denom. time dep. s.a.	Mortg. at all holders ** n.s.a.
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	bil. $
Year & Qtr.						
1987*	744.0	2861.9	613.0 R	540.1	485.4 R	2906.4
1988:1	760.5 R	2946.2 R	621.8 R	545.4 R	493.7 R	2948.9 R
2	770.8	2975.6	629.7	547.0	495.3	2987.4
3	791.7	3026.8	639.9	550.1	502.9	3050.4
4	795.6	3218.7	657.8	557.0	516.8	3063.2
YEAR	779.6	3041.8	657.8	557.0	516.8	3063.2
% change from '87	4.8	6.3	7.3	5.3	6.5	5.4
1989:1	803.4	3209.4	663.2	564.0	517.7	3131.8
2	814.0	3252.6	668.2	567.1	521.2	3206.4
3	827.3	3309.5	685.7	568.2	530.6	3312.0
4	833.1	3390.4	694.7	569.1	547.8	3358.3
YEAR	819.5	3290.5	694.7	569.1	547.8	3358.3
% change from '88	5.1	8.2	5.6	2.2	6.0	9.6
1990:1	838.2	3406.3	703.1	571.6	552.3	3402.2
2	849.8	3451.2	710.6	574.4	556.2	3468.4
3	862.7	3518.5	717.9	574.7	567.3	3509.4
4	873.7	3588.5	728.4	579.2	570.1	3528.7
YEAR	856.1	3491.1	728.4	579.2	570.1	3528.7
% change from '89	4.5	6.1	4.9	1.8	4.1	5.1

*Historical data. n.s.a: not seasonally adjusted.

s.a.: seasonally adjusted at annual rates.

R = Revised. P = Preliminary.

1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES

See Table 1.80 - page 27

1988
FORECAST
DATA

Percent Change from June 1988 Forecast

+ 2.29%	Treas. Bills 2 mo. yield
+ 1.30%	Prime Rate
+ .39%	Aaa Corp. Bond
+ .26%	20 Year Govt. Bond Yield
+ .03%	Conv. Mortg. Rate
+ .26%	S & P's 500 Avg.

KEDI ANTICIPATES THAT THE FEDERAL RESERVE OPEN MARKET COMMITTEE, IN ITS UPCOMING MEETING, WILL LEAVE CREDIT POLICY UNCHANGED, BUT READY TO TIGHEN IF NEEDED, BECAUSE, CURRENTLY, THERE IS VIRTUALLY NO NEED TO MAKE CREDIT CONDITIONS TIGHER OR LOOSER:

* Inflation proceeds well within tolerable limits.

* The rate of exchange of the dollar remains firm.

* The economy performs well without being overheated.

* The U.S. policy of a firm dollar is beginning to show results in reduced inflation expectations and lower long-term interest rates in the second half of this year, and of small, general increase in rates in 1989.

TABLE 1.80
INTEREST RATES, YIELDS & SECURITIES PRICES

Quarterly averages of monthly figures.

INDICATOR	Treas. bills 3 mo. yield	Prime rate	Conv. mortg (confr. rate)	Aaa corp. bond rate	30 yr. Govt. bonds yield	S & P's 500 Avg 1941-43 = 10
Unit	%	%	%	%	%	
Year & Qtr.						
1987*	5.82 R	8.21	8.94 R	9.38	8.59 R	286.83
1988:1	5.76 R	8.59 R	9.24 R	9.56 R	8.63 R	258.12 R
2	6.44	8.94	9.28	9.64	8.79	264.85
3	6.02	9.23	8.96	9.92	8.62	275.48
4	5.88	9.06	8.73	9.85	8.25	283.29
YEAR	6.03	8.96	9.05	9.74	8.57	270.44
% change from '87	3.5	9.1	1.3	3.9	-.2	-5.7
1989:1	5.96	8.98	8.70	9.64	8.47	280.45
2	6.08	9.02	9.01	9.68	8.49	285.52
3	6.24	9.26	9.21	9.78	8.76	298.97
4	6.30	9.37	9.48	9.84	8.86	300.51
YEAR	6.14	9.16	9.10	9.73	8.64	291.36
% change from '88	2.0	2.3	.5	-.1	.8	7.7
1990:1	6.38	9.42	9.52	9.90	8.91	301.43
2	6.41	9.47	9.56	9.92	8.94	302.71
3	6.58	9.50	9.64	9.98	8.76	311.46
4	6.71	9.50	9.60	9.63	8.32	317.28
YEAR	6.52	9.47	9.58	9.86	8.73	308.22
% change from '89	6.1	3.4	5.3	1.3	1.0	5.8

*Historical data. R = Revised. P = Preliminary.

2.0 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, comparisons of accuracy of Personal Consumption Expenditures in 1987:4 has been selected. Actual number is in the Survey of Current Business, May 1988 issue, Table 1.1 (U. S. Department of Commerce, Washington, D.C., monthly). Forecast data are in The Journal of Business Forecasting Methods & Systems, Vol. 5, No. 4, pp. 36-42, Winter 1986/87.

TABLE 2.0

COMPARISONS OF ACCURACY OF PREDICTIONS
(Personal Consumption Expenditures, bil. $, 1987:4)
Actual figure: 3022.6

Forecaster	Date of Forecast	Forecast	Accuracy %
AmeriTrust, Cleveland	12/86	3176.8	+4.9
Core State Financial Corp., Philadelphia	12/86	3220.0	+6.5
Fidelity Bank, Philadelphia	12/86	3214.4	+6.3
First National Bank of Chicago, Chicago	12/86	3315.2	+9.7
First Pennsylvania Bank, Philadelphia	12/86	3188.0	+5.5
Irving Trust, New York	12/86	3244.0	+7.3
LaSalle National Bank, Chicago	12/86	3176.3	+7.3
KEDI, Inc., Kent	12/86	3001.2	- .7
Marine Midland Bank, New York	12/86	3244.4	+7.3
Shawmut of Boston, Boston	12/86	3213.0	+6.3
Valley National Bank, Arizona	12/86	3209.5	+6.2
Metropolitan Life Ins. Co.	12/86	3209.0	+6.2
Prudential	12/86	3166.2	+4.8
Morfgan Guaranty Trust Co.	12/86	3185.2	+5.4
National City Bank, Ohio	12/86	3173.0	+5.0
Manufacturers Hanover Trust	12/86	3204.4	+6.0

3.00 HISTORICAL DATA SOURCES

For reader's convenience listed below are sources of historical data series for the forecasts appearing in the Survey. The first column of the following table refers to the table in this Survey, the second column to the name of forecast series, and the third column identifies the source of historical data. The sources are: **Survey of Current Business** referred to as SCB (monthly, U. S. Department of Commerce, Washington, D.C.), **Federal Reserve Bulletin,** FRB, (Board of Governors of the Federal Reserve System, Washington, D.C. monthly), **Index of Industrial Production,** G.12.3 Release, IIP, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly.)

TABLE 3.00

HISTORICAL DATA SOURCES

Table Number	Data Series	Source
1.11 Selected Indicators of Real Growth I.	Gross national product, 1982 $	SCB, Table 1.2
	Index of industrial production	IIP, p. 2.
	Unemployment rate	SCB, Blue pages
	Capacity utilization rate	FRB, Table 2.11
	Private housing starts	SCB, Blue pages
	Car sales	SCB, Blue pages
1.12 Selected Indicators of Real Growth II.	Personal Cons. expend: Durables,	SCB, Table 1.1
	Nondurables	SCB, Table 1.1
	Services	SCB, Table 1.1
	Retail sales: Total	SCB, Blue pages
	Durables	SCB, Blue pages
	Nondurables	SCB, Blue pages
1.12 Real GNP	Gross national product, 1982 $	SCB, Table 1.2
	Personal consumpt. expenditures	SCB, Table 1.2
	Gross private dom. investment	SCB, Table 1.2
	Net exports	SCB, Table 1.2
	Federal purchases	SCB, Table 1.2
	State and local purchases	SCB, Table 1.2
1.21 Prices	Consumer price index	SCB, Blue pages
	Producer price index	SCB, Blue pages
	Implicit price deflators: GNP	SCB, Table 7.1
	Personal consumpt. expenditures	SCB, Table 7.1
	Federal purchases	SCB, Table 7.1
	State and local purchases	SCB, Table 7.1
1.22 Nominal GNP	Gross national product	SCB, Table 1.1
	Personal consumpt. expenditures	SCB, Table 1.1
	Gross private dom. investment	SCB, Table 1.1
	Net exports	SCB, Table 1.1
	Federal purchases	SCB, Table 1.1
	State and local purchases	SCB, Table 1.1

(Table 3.00 continues on the following page.)

TABLE 3.00

HISTORICAL DATA SOURCES (CONTINUED)

Table Number	Data Series	Source
1.30 Employment and Labor	Population	SCB, Blue pages
	Civilian labor force	SCB, Blue pages
	Employment	SCB, Blue pages
	Agriculture	SCB, Blue pages
	Non-agriculture	SCB, Blue pages
	Unemployment rate	SCB, Blue pages
1.41 Housing	Single-family housing starts	SCB, Blue pages
	Multifamily housing starts	SCB, Blue pages
	Mobile home shipments	SCB, Blue pages
	Permits authorized	SCB, Blue pages
	1-family unit price, new	FRB, Table 2.14
	1-family unit price, existing	FRB, Table 2.14
1.42 Autos	Passenger cars: Total sales	SCB, Blue pages
	Domestic	SCB, Blue pages
	Imported	SCB, Blue pages
	Dealers inventories	SCB, Blue pages
	Factory shipments	SCB, Blue pages
	Light-duty truck sales	SCB, Blue pages
1.50 Federal State & Local Budgets	Federal govt: Income taxes	SCB, Table 3.2
	Corporate profit tax accruals	SCB, Table 3.2
	Surplus/Deficit	SCB, Table 3.2
	State & local govt:Income taxes	SCG, Table 3.3
	Corporate profit tax accruals	SCG, Table 3.3
	Surplus/Deficit	SCB, Table 3.3
1.60 Income	Personal income	SCB, Table 2.1
	Personal disposable income	SCB, Table 2.1
	Compensation of employees	SCB, Table 1.11
	Corporate after tax profits	SCB, Table 1.11
	Personal saving	SCB, Table 2.1
	Average weekly earnings	SCB, Blue pages
1.70 Money and Credit	Currency and demand deposits, M1	FRB, Table 1.21
	Time deposits, adjusted, M2	FRB, Table 1.21
	Consumer installment credit	FRB, Table 1.55
	Commercial and industrial loans	FRB, Table 1.23
	Large denomination time deposits	FRB, Table 1.21
	Mortgages at S&L Associations	FRB, Table 1.54
1.80 Interest Rates, Yields, & Securities Prices	Treasury bills (3 mo) yield	FRB, Table 1.35
	Prime rate	FRB, Table 1.33
	Conventional mortgage rate	FRB, Table 1.53
	Aaa corporate bonds rate	FRB, Table 1.35
	20 years government bonds yield	FRB, Table 1.35
	Standard & Poor's 500 average	FRB, Table 1.36

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KEDI ECONOMIC SURVEY

August 1, 1988

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SOURCES:

U.S.Department of Commerce first estimate of 1988:2, National Income and Product data, July 20, 1988.

Board of Governors of the Federal Reserve System release of the Index of Industrial Production, July 1988.

The latest available data on prices, employment, industrial and financial developments.

0.00 INTRODUCTION

0.01 EXECUTIVE SUMMARY

HIGHLIGHTS

Real Growth

A fully employed economy lead by exports, capital spending, and manufacturing production underscore characteristics of the economy

Prices

Fears that exist about run-away inflation, are, in KEDI's opinion, exaggerated. Inflation will remain under control.

Employment & Labor

The current low unemployment rate and high-employment figures do not indicate a general tighenhing of the labor market.

Housing

KEDI forecast of housing starts shows low performance for the rest of this year, though not as bad as some are predicting.

Automobiles

Sales of domestic-built cars increased by 3.4% in mid-July showing that consumer's confidence remains strong.

Budgets

Recently released data on Federal receipts and expenditures underline the trend toward lower deficits in the future.

Income

Forecast data for personal income and components point to a regular growth throughout the forecast period.

Money & Credit

Consumer credit is expected to continue at fast rates throughout the rest of the year.

Interest Rates, Yields & Securities Prices

"The Fed at this juncture might be well advised to err more on the side of restrictiveness rather on stimulus." Fed Chairman Allan Greenspan (Wall Street Journal, 7-9-88, p.3).

0.02 ASSUMPTIONS

		Last Update
1.	In 1988, the weighted price of oil will increase slightly as compared to 1987. It will continue increasing in the 1989-1990 period.	April 1986
2.	A longer-lasting relaxation in monetary and credit policies will last for the most of 1988. More tightening is expected in 1989.	February 1988
3.	In 1988 below average and in 1989 good crops in most of the main producing countries are anticipated.	June 1988
4.	Foreign trade with China will expand in 1988 and following years.	May 1987
5.	Average rates of growth in 1985-1990 in major industrial countries are anticipated: West Germany 3.0%; Italy 2.1% Great Britian 2.1%; France 2.0%; Japan 3.1%; Canada 2.6%	September 1987
6.	No drastic changes in international relationships are anticipated.	Permanent Assumption

0.03 FORECAST HIGHLIGHTS

*	Table 0.00 on page 3 shows forecast data of selected indicators of the August 1988 KEDI forecast.	
*	In 1988 solid growth is expected. It will slow down a bit in the first half of 1989.	January 1987
*	The upward trend will continue throughout 1990-1991.	January 1987
*	Forecast data for 1988-1991 do not point to to recession or major downturn.	January 1987
*	In 1988 interest rates will remain, in average, at low levels throughout most of the year. Some increases are anticipated in second half 1988.	March 1988
*	Federal budget deficits will keep declining in in 1988 and the following years.	January 1987
*	The 1987 export-import gap will start closing to a more acceptable level.	January 1987

TABLE 0.00

KEDI FORECAST HIGHLIGHTS

Data for 1988, 1989 and 1990 are on pages indicated below.

Indicator	Unit	1987	1991	1992	1993
Gross national	bil. 82$	3847.0	4289.1	4396.3	4510.6
product, p. 5	% change	3.1	2.9	2.5	2.6
Index of indust.	1977=100	129.8	147.2	152.0	157.2
prod., p. 5	% change	3.8	3.2	3.3	3.4
Capacity	%	82.6	83.1	81.7	81.3
utiliz., p. 5	% change	3.8	.2	-1.6	-.5
Unemployment	%	6.2	5.6	5.5	5.4
rate, p. 5	% change	-12.0	.6	-1.2	-1.1
Private housing	mil.units	1.6	2.0	1.9	2.0
starts, p. 5	% change	-5.8	4.7	-2.0	3.5
Car sales,	mil.units	10.3	11.5	11.6	12.0
p. 5	% change	-10.7	3.9	1.0	4.0
Implicit GNP	1982=100	117.7	136.3	141.2	146.4
price def.,p.11	% change	3.6	3.5	3.6	3.7
Consumer Price	1967=100	113.7	133.9	138.2	143.2
Index, p. 11	% change	3.7	3.9	3.2	3.6
Prod.Price Index	1967=100	105.5	125.7	131.3	136.3
(fin.goods),p.11	% change	2.3	4.5	4.5	3.8
Federal Deficit	bil. $	-151.4	-99.7	-83.1	-67.8
p. 21	% change	-27.4	-10.5	-16.7	-18.4
Personal Income	bil. $	3780.0	5028.1	5375.0	5772.7
p. 23	% change	6.1	7.8	6.9	7.4
Prime Rate	%	8.2	9.3	10.0	10.8
p. 27	% change	-1.5	-3.0	7.5	8.0
Mortgage Rate	%	9.2	10.2	9.9	10.1
p. 27	% change	-6.8	6.0	-2.7	1.8
Currency+demand	bil. $	744.0	907.5	967.4	1033.2
deposits , p. 25	% change	11.5	6.0	6.6	6.8
Commercial+ind.	bil. $	540.1	598.7	600.0	3601.8
loans, p. 25	% change	5.1	3.0	2.9	2.1
Raw steel	mil.sh.tons	89.2	94.7	96.2	95.1
production	% change	5.4	.6	-1.1	-.1
Electric power	mil.kw-hr	2572	3055.8	3168.9	3317.8
production	% change	4.7	3.5	3.7	4.7
Bituminous coal	mil.sh.tons	913	936	973.3	984.1
production	% change	2.5	1.0	1.3	1.5
Crude oil	avg. daily bbl.	3033	3142	3176.9	3218.2
output	% change	-.3	2.0	1.1	1.3
Retail sales	bil. $	1510.6	2001.8	2140.0	2289.7
p. 7	% change	5.8	7.2	6.9	7.0

Numbers in "% change" rows show percent changes over the previous year.

1.10 REAL GROWTH, CONSUMER SPENDING, AND RETAIL SALES

1.11 REAL GROWTH

See Table 1.11
Page 5

A FULLY EMPLOYED ECONOMY LEAD BY EXPORTS, CAPITAL SPENDING, AND MANUFACTURING PRODUCTION UNDERSCORE THE CURRENT CHARACTERISTS OF THE U.S. ECONOMY AS SHOWN IN RECENTLY RELEASED DATA.

Data pointing to the future development of the economy in that direction are:

* New orders for durables rose in June to a seasonally adjusted $125.23 bil. from the May figure of $115.1 bil., an 8.8% increase--the biggest since December 1985.
* Unfilled orders for durables rose 2.2% to $414.32 bil. in June, the largest increase since March 1984.
* Construction spending rose in June to a seasonally adjusted annual rate of $402.8 bil from a revised $402.3 bil. in May reflecting the strength in capital spending in non-residential segment.
* The last Survey of the National Association of Purchasing Management has shown that the economy continued to expand in July, and has entered the third quarter at the same strong pace as it left the second quarter.
* Leading indicators of the economic activity for June rose to 194% from a revised 191.3% in May, the biggest rise in one and one-half years.
* Industrial production continues to grow at a fast rate with an expected increase in the industrial production, as measured by the IIP, of .6 - .8% in July.
* July data on numbers of employed persons, car sales, and new home sales point to continuous expansion of the economy in the months ahead.

1988
FORECAST
DATA

Percent Change
from
July 1988
Forecast

+ .62%	GNP
+ .41%	Unemp-ployment
+ .04%	Index Indus. Prod.
+ .03%	Capac. Util.
- .23%	Autos
- 1.78%	Private Housing Starts

TABLE 1.11
SELECTED INDICATORS I.
Quarterly data are seasonally adjusted at annual rates.

INDICATOR	GNP	Index of ind. prod.	Unem- ploy ment	Capacity util'n rate	Private housing starts	Auto sales
Unit	$82 bil.	1977=100	%	%	mil.	mil.
Year & Qtr.						
1987*	3847.0 R	129.8	6.20	82.6	1.621	10.3
1988:1	3956.1 R	134.5	5.73	82.6 R	1.485	10.7
2	3986.3 P	136.0 R	5.47	83.0	1.503	10.6 P
3	3949.2	136.9	5.41	83.1	1.635	11.0
4	3973.3	137.6	5.40	83.0	1.663	10.8
YEAR	3966.2	136.2	5.50	82.9	1.571	10.8
% change from '87	3.1	5.0	-11.2	.4	-3.1	4.6
1989:1	4049.5	137.9	5.47	83.0	1.612	10.2
2	4042.1	138.7	5.58	82.9	1.746	10.8
3	4076.4	139.4	5.62	82.9	1.883	11.3
4	4093.2	139.9	5.70	82.7	1.832	10.9
YEAR	4065.3	139.0	5.59	82.9	1.768	10.8
% change from '88	2.5	2.0	1.6	-.1	12.5	.2
1990:1	4135.1	140.3	5.68	82.8	1.680	10.8
2	4157.2	141.1	5.61	82.9	1.866	10.9
3	4181.1	143.4	5.57	82.9	2.040	11.4
4	4199.5	145.7	5.54	83.0	1.903	11.0
YEAR	4168.2	142.6	5.60	82.9	1.872	11.0
% change from '89	2.5	2.6	.1	.0	5.9	2.1

*Historical data.
R = Revised. P = Preliminary.

1.12 CONSUMER SPENDING AND RETAIL SALES

See Table 1.12 - page 7

IN 1989 SIGNIFICANT GAINS ARE EXPECTED FOR DURABLES, MOTOR VEHICLES AND PARTS AND HOME BUILDING MATERIALS AND HOME FURNISHINGS.

Consumer spending data recently released confirm that consumers continue to fuel the growth of the economy. In June, consumer spending rose by 1% to an annual rate of $3.2 trillion after a revised .6% rise in May, and .5% increase in April. That indicates that consumers are quite optimistic about the present economy and its development in the future. Forecast of retail sales in the rest of this year and in 1989-1990 is optimistic. In the third quarter of this year, a rebound from June's weak performance is expected.

1988
FORECAST
DATA

Percent Change
from
July 1988
Forecast

+ 2.99%	Pers. Cons. Exp. Durable
+ 1.30%	Pers. Con. Exp. Nondurable
+ .04%	Retail Sales Nondurable
+ .01%	Retail Sales Total
- .03%	Retail Sales Durable
- 1.79%	Pers. Cons. Exp. Services

TABLE 1.12

CONSUMER SPENDING AND RETAIL SALES

Quarterly data are seasonally adjusted at annual rates.

	*--Personal Cons. Expend.-**			------Retail Sales-------*		
INDICATOR	Durables	Nondurables	Services	Total	Durables	Nondurables
Unit	bil.$	bil.$	bil.$	bil.$	bil.$	bil.$
Year & Qtr.						
1987*	421.9 R	997.9 R	1592.3 R	1510.6	559.1	951.5
1988:1	437.8 R	1016.2 R	1674.1 R	1565.2	596.1	969.1
2	446.9 P	1030.3 P	1709.6 P	1620.1	598.9	1021.2
3	461.8	1053.8	1637.9	1644.3	619.0	1025.3
4	470.3	1074.4	1655.3	1685.7	634.1	1051.6
YEAR	454.2	1043.7	1669.2	1628.8	612.0	1016.8
% change from '87	7.7	4.6	4.8	7.8	9.5	6.9
1989:1	472.8	1081.2	1762.6	1699.1	619.5	1079.6
2	481.0	1101.5	1758.6	1727.0	637.2	1089.8
3	489.2	1125.8	1873.2	1769.7	665.4	1104.3
4	495.6	1132.9	1916.1	1793.0	689.2	1103.8
YEAR	484.6	1110.3	1827.6	1747.2	652.8	1094.4
% change from '88	6.7	6.4	9.5	7.3	6.7	7.6
1990:1	503.2	1146.6	1966.0	1817.0	698.5	1118.5
2	511.6	1159.2	2035.2	1849.1	717.1	1132.0
3	522.1	1175.1	2084.6	1885.2	734.7	1150.5
4	536.4	1188.2	2122.1	1918.2	754.7	1163.5
YEAR	518.3	1167.3	2051.9	1867.4	726.2	1141.1
% change from '89	6.9	5.1	12.3	6.9	11.2	4.3

* Historical data. R = Revised. P = Preliminary.

1.13 REAL GNP

See Table 1.13
Page 9

IN THE SECOND QUARTER OF THIS YEAR, THE ECONOMY GREW AT A HEALTHY, WELL BALANCED 3.1% ANNUAL RATE ACCORDING TO THE FIRST ESTIMATE OF THE U.S. COMMERCE DEPARTMENT.

The comparison of components of GNP in the first and second quarters of this year shows significant improvements in the second quarter, notably in net exports, inventory build-up, non-residential investment, and home building.

Net exports have increased and imports declined--the first drop since the first quarter of 1986.

Home building has picked up a bit after a drop in the first quarter.

Inventory build-up has slowed down from $66 bil. in the first quarter to $45 bil. in the second quarter allaying concerns of an excesssive build

Consumer spending slowed down somewhat indicating the economy is shifting to the exports- and investment-lead expansion.

Business capital outlays show further strong gain

1988
FORECAST
DATA

Percent Change
from
July 1988
Forecast

+ 1.55%	State Local Purch.
+ .62%	GNP
+ .31%	Pers. Cons. Expend.
- .11%	Federal Govt. Purch.
- 1.91%	Gross Private Dom. Inv.
-20.48%	Net Exports

TABLE 1.13
REAL GNP

Quarterly data are seasonally adjusted at annual rates.

	------------Gross National Product---------------					
INDICATOR	Total	Pers. cons. expend.	Gross pvt.dom. investm.	Net exports	Fed. govt. purch.	State local purch.
Unit	$82 bil.	$82 bil.	$82 bil.	$82 bil.	$82 bil.	$82 bil.
Year & Qtr.						
1987*	3847.0 R	2521.0 R	674.8 R	-128.9 R	339.0 R	441.2 R
1988:1	3956.1 R	2559.8 R	728.9 R	-109.0 R	327.8 R	448.7 R
2	3986.3 P	2574.2 P	725.0 P	-90.1 P	325.3 P	451.9 P
3	3949.2	2532.9	724.7	-88.3	326.7	453.2
4	3973.3	2547.8	729.5	-85.4	325.1	456.3
YEAR	3966.2	2553.7	727.0	-93.2	326.2	452.5
% change from '87	3.1	1.3	7.7	-27.7	-3.8	2.6
1989:1	4049.5	2615.6	731.3	-84.2	328.6	458.2
2	4042.1	2602.1	735.1	-80.3	324.9	460.3
3	4076.4	2624.7	739.7	-76.8	326.7	462.1
4	4093.2	2635.4	736.1	-73.1	330.1	464.7
YEAR	4065.3	2619.5	735.5	-78.6	327.6	461.3
% change from '88	2.5	2.6	1.2	-15.7	.4	1.9
1990:1	4135.1	2643.1	740.2	-70.2	333.4	466.2
2	4157.2	2681.6	742.1	-69.3	335.4	467.4
3	4181.1	2695.5	744.2	-65.1	337.2	469.3
4	4199.5	2705.1	746.2	-63.2	339.3	472.1
YEAR	4168.2	2681.3	743.2	-67.0	336.3	468.8
% change from '89	2.5	2.4	1.0	-14.8	2.7	1.6

*Historical data.

R = Revised. P = Preliminary.

1.20 PRICES AND NOMINAL GNP

1.21 PRICES

See Tables 1.21 - page 11

1988
FORECAST
DATA

Percent Change
from
July 1988
Forecast

- .02%	Consumer Price Index
- .02%	Producer Price Index
- .08%	GNP
- .46%	Pers. Cons. Expend.
- .64%	Federal Govt. Purch.
- 1.24%	State Local Purch.

FEARS THAT EXIST ABOUT RUN-AWAY INFLATION ARE, IN KEDI'S OPINION, EXAGGERATED. INFLATION WILL CONTINUE RISING, BUT MODERATELY, AND WILL REMAIN UNDER CONTROL.

Consumer Prices are expected to move up to the 4.5% range to the end of this year and through early 1989, and Producer Prices will increase by 4% during the same period.

The following facts support the prediction of a moderate pace of inflation in months ahead:

* Some inflationary pressures appear in primary manufacturing, however, primary manufacturing has been downgraded in recent years, like steel and aluminum, and NOW, it does not have the significant impact on manufacturing prices as it has before.

* In the finished-goods segments of manufacturing, the inflationary pressures are expected to remain subdued because of excess capacity, slow construction and overstocked retail and wholesale.

* Wage growth, so far, is slow and will remain slow in the foreseeable future.

* Recently, commodity prices have begun to fall due to a stronger dollar and the return of rain in the Midwest.

TABLE 1.21
PRICES

Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

INDICATOR	*---Indexes--*		*-------Price deflators--------*			
	Cons. price index n.s.a.**	Prod. price index n.s.a.**	Gross Nat'l Prod.	Pers. cons. expend.	Fed. govt. purch.	State local purch.
Unit	1982-4= 100	1982= 100	1982= 100	1982= 100	1982= 100	1982= 100
Year & Qtr.						
1987*	113.6 R	105.4 R	117.7 R	119.5 R	112.7 R	123.0 R
1988:1	116.1 R	106.1 R	119.4 R	122.2 R	115.2 R	126.5 R
2	117.5 P	108.2 P	120.6 P	123.8 P	115.3 P	128.1 P
3	118.8	109.5	122.4	124.5	117.0	130.4
4	119.9	112.5	123.6	125.6	118.3	131.7
YEAR	118.1	109.1	121.5	124.0	116.5	129.2
% change from '87	3.9	3.5	3.2	3.8	3.3	5.0
1989:1	121.9	113.8	124.0	126.8	120.0	132.7
2	122.5	114.9	124.9	128.4	120.8	133.3
3	124.1	115.8	127.0	132.9	122.0	135.7
4	125.7	116.0	128.5	134.5	122.4	137.1
YEAR	123.5	115.1	126.1	130.7	121.3	134.7
% change from '88	4.6	5.5	3.8	5.3	4.2	4.3
1990:1	127.0	118.4	130.1	136.8	123.6	138.0
2	128.1	119.4	131.0	138.2	124.8	138.9
3	129.5	120.8	132.1	140.3	127.2	139.8
4	131.0	122.4	133.5	142.2	128.5	141.6
YEAR	128.9	120.2	131.7	139.4	126.0	139.6
% change from '89	4.3	4.5	4.4	6.7	3.9	3.6

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*Historical data. R = Revised. P = Preliminary.
**CPI: All Urban Consumers; PPI: Finished Goods.

1.22 NOMINAL GNP

See Table 1.22 - page 13

1988
FORECAST
DATA

Percent Change
from
July 1988
Forecast

+ .54%	GNP
+ .34%	State Local Purch.
- .04%	Pers. Cons. Expend.
- .52%	Gross Private Dom. Inv.
- .80%	Federal Govt. Purch.
-11.41%	Net Exports

THE DECLINE OF THE VALUE OF THE U.S. DOLLAR ON WORLD MARKETS IS WORKING FAVORABLY TO REDUCE IMPORTS AND RAISE EXPORTS.

The first estimate of the U.S. trade deficit in the second quarter of this year, recently released by the U.S. Department of Commerce shows further improvement. Compared to the first quarter of this years' deficit of $112.1 bil., the deficit shrank by $24.5 bil. to $90.6 bil.

KEDI anticipates very small but persistent increases in the international value of the dollar throughout the rest of this year and in 1989. A decline in the value of the dollar would be counter-productive in that it would not speed up the narrowing of the trade deficit since it would not stimulate the exports due to the high capacity utilization in exporting industries. It would lead to higher import prices thus slowing down the decline in the trade deficit or even cause it to increase.

TABLE 1.22
NOMINAL GNP

Quarterly data are seasonally adjusted at annual rates.

INDICATOR	*----------Gross National Product					-----------*
	Total	Pers. cons. expend.	Gross pvt. dom invest.	Net exports	Fed. govt. purch.	State local purch.
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	bil. $
Year & Qtr.						
1987*	4526.7 R	3012.1 R	712.9 R	-123.5 R	382.0 R	542.8 R
1988:1	4724.5 R	3128.1 R	763.4 R	-112.1 R	377.7 R	567.5 R
2	4806.9 P	3186.8 P	756.5 P	-90.6 P	375.2 P	579.0 P
3	4833.8	3153.5	759.8	-89.1	382.2	591.0
4	4911.0	3200.0	760.1	-86.3	384.6	600.9
YEAR	4819.0	3167.2	760.0	-94.5	379.9	584.6
% change from '87	6.5	5.1	6.6	-23.5	-.5	7.7
1989:1	5021.4	3316.6	763.4	-87.3	394.3	608.0
2	5048.6	3341.1	765.3	-83.2	392.5	613.6
3	5177.0	3488.2	772.1	-80.1	398.6	627.1
4	5259.8	3544.6	770.9	-77.2	404.0	637.1
YEAR	5126.7	3422.6	767.9	-82.0	397.4	621.4
% change from '88	6.4	8.1	1.0	-13.3	4.6	6.3
1990:1	5379.8	3615.8	775.1	-74.7	412.1	643.4
2	5445.9	3706.0	779.4	-73.6	418.6	649.2
3	5523.2	3781.8	782.2	-70.2	428.9	656.1
4	5606.3	3846.7	783.5	-67.5	436.0	668.5
YEAR	5488.8	3737.5	780.0	-71.5	423.9	654.3
% change from '89	7.1	9.2	1.6	-12.8	6.7	5.3

*Historical data. R = Revised. P = Preliminary.

1.30 EMPLOYMENT AND LABOR

See Table 1.30 - page 15

1988
FORECAST
DATA

Percent Change from July 1988 Forecast

+	.41%	Unemployment rate
+	.02%	Population
	0.00%	Agriculture
-	.04%	Civilian Labor Force
-	.05%	Total Employed
-	.05%	Non-Agri.

THE CURRENT LOW UNEMPLOYMENT RATE AND HIGH-EMPLOYMENT FIGURES DO NOT INDICATE A GENERAL TIGHTENING OF THE NATION'S LABOR MARKET.

Businesses are not really having difficulty in finding people. The employment in June rose by 532,000 and it is expected it will rise by approximately 300,000 in July, according to early reports. Data for manufacturing show the 55,000 gain in June and the expected 70,000 increase in July. Forecast data for the rest of this year and for the 1989-90 period show a persistently low unemployment rate. It will increase slightly in the first half of next year and resume the downward trend afterwards.

TABLE 1.30
EMPLOYMENT & LABOR

Quarterly data are seasonally adjusted at annual rates.

			-------Employment-------			
INDICATOR	Population	Civil. labor force	Total	Agricult.	Non-agric.	Unemployment rate
Unit	mil.	mil.	mil.	mil.	mil.	%
Year & Qtr.						
1987*	244.7	119.9	113.4	3.2	109.2	6.20
1988:1	247.9	121.1	114.2	3.2	111.0	5.73
2	249.6	121.6	114.9	3.2	111.7	5.47
3	250.4	122.3	115.7	3.2	112.5	5.41
4	251.5	123.2	116.5	3.2	113.3	5.40
YEAR	249.8	122.0	115.2	3.2	112.0	5.50
% change from '87	2.1	1.8	1.7	0.0	2.6	-11.25
1989:1	253.9	123.5	116.7	3.2	113.5	5.47
2	254.3	124.2	117.3	3.2	114.1	5.58
3	255.1	125.0	118.0	3.2	114.8	5.62
4	256.0	125.6	118.4	3.2	115.2	5.70
YEAR	254.8	124.6	117.6	3.2	114.4	5.59
% change from '88	2.0	2.1	2.0	0.0	2.1	1.64
1990:1	257.4	126.1	118.9	3.2	115.7	5.68
2	258.9	127.0	119.9	3.2	116.7	5.61
3	260.2	128.0	120.9	3.2	117.7	5.57
4	261.8	128.1	121.0	3.2	117.8	5.54
YEAR	259.6	127.3	120.2	3.2	117.0	5.60
% change from '89	1.9	2.2	2.2	0.0	2.2	.13

*Historical data. R = Revised. P = Preliminary.

1.41 HOUSING

See Table 1.41 - Page 17

1988
FORECAST
DATA

Percent Change
from
July 1988
Forecast

- .09%	1-Family Unit price Existing
- .11%	1-Family Unit price New
- .17%	Mobile Home Shipments
- .17%	Multiple Family Housing Starts
- .20%	Permits Issued
- .28%	Single Family Housing Starts

KEDI FORECAST OF HOUSING STARTS SHOWS LOW PERFORMANCE FOR THE REST OF THIS YEAR, THOUGH NOT AS PESSIMISTIC AS MANY FORECASTERS ARE DEPICTING.

The number of housing starts this year is expected to be 1.6 bil. units, compared to some dire predictions of 1.3-1.4 bil. units. The rebound is predicted for 1989 mainly in apartment housing, and further significant gains in the following year.

Recent increases in mortgage rates are not considered to have a significant impact on slowing down of the the growth in the number of housing permits and the actual number of starts.

TABLE 1.41
HOUSING

Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

INDICATOR Unit	Single family housing starts mil.	Multi-family housing starts mil.	Mobile home ship-ments mil.	Permits author-ized mil.	1-Fam. unit price new** tho. $	1-Fam. unit price exist** tho. $
Year & Qtr.						
1987*	1.146	.474	.233	1.535	127.9	106.2
1988:1	1.098	.387	.207	1.384	139.2	109.8
2	1.076 P	.429 P	.227 P	1.460 P	139.7 P	112.6 P
3	1.181	.454	.241	1.536	140.9	114.8
4	1.200	.463	.247	1.584	143.2	116.0
YEAR	1.139	.433	.231	1.491	140.8	113.3
% change from '87	-.6	-8.6	-1.0	-2.9	10.0	6.7
1989:1	1.160	.452	.230	1.430	145.4	119.7
2	1.240	.506	.245	1.604	148.9	120.9
3	1.305	.578	.260	1.742	152.4	124.5
4	1.282	.550	.268	1.759	155.1	127.6
YEAR	1.247	.521	.251	1.634	150.4	123.2
% change from '88	9.5	20.4	8.7	9.6	6.9	8.7
1990:1	1.184	.496	.238	1.524	157.1	130.8
2	1.296	.570	.251	1.689	159.7	132.4
3	1.436	.604	.292	1.819	165.3	135.7
4	1.311	.592	.284	1.843	168.7	137.0
YEAR	1.307	.566	.266	1.719	162.7	134.0
% change from '89	4.8	8.4	6.2	5.2	8.1	8.8

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*Historical data. R = Revised. P = Preliminary.
**Average. Not seasonally adjusted.

1.42 AUTOMOBILES

See Table 1.42 - page 19

SALES OF DOMESTIC-BUILT CARS INCREASED BY 3.4% IN MID-JULY SHOWING THAT CONSUMERS' CONFIDENCE REMAINS STRONG.

The higher sales level boosted the seasonally adjusted annual rate to 7.5 mil. cars from the 7.1 mil. pace set in early July and last year's 7.0 mil. annual rate. Sales of U.S.-built light-duty trucks also remained strong increasing 6.2% in the period.

The forecast of car production and sales is optimistic. For 1989 and 1990 a strong demand, specifically for domestic-built cars is expected.

The average price increase of 1989 models is expected within tolerable limits of 3-5%, moderated by strong rounds of incentives this Fall.

1988
FORECAST
DATA

Percent Change
from
July 1988
Forecast

+ 1.65%	Total Car Sales
+ 1.25%	Total Light Truck Sales
+ .33%	Domestic Car Sales
0.00%	Imported Car Sales
0.00%	Dealer Inventory
0.00%	Shipments

TABLE 1.42
AUTOMOBILES
Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

INDICATOR	Total car sales	Car sales dom.	Car sales imp.	Dealer car inventory n.s.a. **	Factory car shipments	Total light truck sales
Unit	mil.	mil.	mil.	mil.	mil.	mil.
Year & Qtr.						
1987*	10.3	7.1	3.2	1.7	4.1	3.8
1988:1	10.7	7.6	3.1	1.6	7.5	4.1
2	10.6 P	7.5 P	3.1 P	1.6	7.6	4.0
3	11.0	7.8	3.2	1.8	7.9	4.2
4	10.8	7.6	3.2	1.6	7.8	3.9
YEAR	10.8	7.6	3.2	1.6	7.7	4.0
% change from '87	4.6	7.4	0.0	-5.9	87.8	6.6
1989:1	10.2	7.0	3.2	1.7	7.0	3.8
2	10.8	7.6	3.2	1.8	7.6	4.1
3	11.3	8.1	3.2	1.8	8.3	4.3
4	10.9	7.7	3.2	1.7	7.7	4.0
YEAR	10.8	7.6	3.2	1.7	7.7	4.0
% change from '88	.2	.2	0.0	6.2	-.6	0.0
1990:1	10.8	7.6	3.2	1.7	7.9	4.2
2	10.9	7.6	3.3	1.8	8.0	4.3
3	11.4	8.0	3.4	1.8	8.4	4.5
4	11.0	7.7	3.3	1.8	8.0	4.4
YEAR	11.0	7.7	3.3	1.8	8.1	4.3
% change from '89	2.1	-1.0	3.1	5.9	5.6	7.4

*Historical data. R = Revised. P = Preliminary.
**End of period data.

1.50 BUDGETS

See Table 1.50 - page 21

1988
FORECAST
DATA

Percent Change
from
July 1989
Forecast

+ 2.47%	State Income Tax
+ 1.99%	Federal Income Tax
+ 1.97%	State Local Corp. Tax Accrued
+ 1.70%	Corporate Profit Tax Accrued
- .43%	Federal Surplus/ Deficit
- .81%	State Income Tax

RECENTLY RELEASED DATA ON FEDERAL RECEIPTS ON TAXES AND FEDERAL BUDGET EXPENDITURES IN APRIL AND MAY THIS YEAR UNDERLINE THE TREND TOWARD LOWER DEFICITS IN THE FUTURE.

Actual Federal tax receipts for April and May were significantly higher than expected and budget expenditures kept in line with the Administration's prediction. Forecast data indicate that this positive trend will continue mainly due to significantly increasing receipts on taxes paid by businesses from earnings, and personal income taxes from income generated by the increasing number of employed persons.

KEDI forecast of the Federal deficit remains essentially unchanged, however, the Federal deficit is still expected at around $50-60 bil. in fiscal 1992.

TABLE 1.50
FEDERAL, STATE AND LOCAL BUDGETS
Quarterly data are seasonally adjusted at annual rates.

	-----FEDERAL----------			*---STATE AND LOCAL----*		
INDICATOR	Income taxes	Corp. profits tax accru.	Surplus /deficit	Income taxes	Corp. profits tax accru.	Surplus /deficit
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	bil. $
Year & Qtr.						
1987*	407.7 R	111.4 R	-150.2 P	162.6 R	27.1 R	44.1 P
1988:1	413.3 R	117.6 R	-151.1 R	173.5 R	27.9 R	46.0 R
2	423.1 P	122.5	-148.4	177.6 P	28.8	47.2
3	437.6	123.7	-145.2	180.2	30.8	50.6
4	447.2	126.8	-138.0	186.0	31.6	51.0
YEAR	430.3	122.7	-145.7	179.3	29.8	48.7
% change from '87	5.5	10.1	-3.0	10.3	9.9	10.4
1989:1	459.1	127.2	-131.0	189.5	32.8	53.1
2	464.2	129.8	-126.0	191.9	33.0	56.2
3	470.0	133.4	-119.3	198.8	33.7	58.2
4	477.8	136.1	-117.0	200.3	34.4	60.0
YEAR	467.8	131.6	-123.3	195.1	33.5	56.9
% change from '88	8.7	7.3	-15.3	8.8	12.4	16.8
1990:1	486.1	135.2	-113.0	20.9	35.1	61.1
2	493.7	137.1	-112.1	210.2	35.3	62.0
3	499.3	141.6	-111.5	219.6	37.2	62.9
4	511.4	145.3	-109.0	224.7	37.8	63.6
YEAR	497.6	139.8	-111.4	168.8	36.4	62.4
% change from '89	6.4	6.2	-9.7	-13.5	8.6	9.7

*Historical data. R = Revised. P = Preliminary.

1.60 INCOME

See Table 1.60 - page 23

FORECAST DATA FOR PERSONAL INCOME AND COMPONENTS POINT TO A REGULAR GROWTH THROUGHOUT THE FORECAST PERIOD.

Some slowing down is predicted for the first half of next year and resumption of growth afterward.

KEDI forecast of corporate profits in this year and in 1989 remains unchanged. In 1988 strong gains are expected and in 1989 some slowing down but still healthy.

Industries with largest increases ind earnings this year are expected in industrial and farm machinery, steel, cosmetics, textiles, trucking, building materials, airlines, nonresidential construction,
while average margins are expected in rubber and plastics, aerospace, apparel, motor vehicles and parts, instruments, telephone, utilities, beverages, coal mining, nonferrous metal mining, retail and wholesale trade, and railroads.

1988
FORECAST
DATA

Percent Change
from
July 1988
Forecast

+ 5.14%	Corp. After Tax Earnings
+ 1.00%	Comp. of Employees
+ .18%	Personal Income
+ .02%	Average Weekly Earnings
- .09%	Personal Disp. Income
- 3.40%	Personal Savings

TABLE 1.60
INCOME

Quarterly data are seasonally adjusted at annual rates.

INDICATOR	Pers. income	Pers. disp. income	Comp. of empl.	Corp. after tax profits	Pers. saving	Avg. week earn.
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	$
Year & Qtr.						
1987*	3780.0 R	3209.7 R	2672.8 R	142.9 R	104.2 R	405.0
1988:1	3951.4 R	3375.6 R	2790.6 R	149.4 R	149.9 R	410.8 R
2	4017.2 P	3416.5 P	2824.3 P	159.4	130.6 P	415.8
3	3907.8	3290.0	2906.3	161.2	136.5	420.1
4	3973.4	3340.2	2964.5	165.9	140.2	424.0
YEAR	3962.4	3355.6	2871.4	159.0	139.3	417.7
% change from '87	4.8	4.5	7.4	11.2	33.7	3.1
1989:1	4213.9	3565.3	2697.2	167.7	143.1	428.3
2	4245.2	3589.1	3028.1	169.4	140.8	429.0
3	4412.0	3743.2	3060.1	174.7	145.9	434.6
4	4478.4	3800.3	3094.3	176.4	145.8	437.9
YEAR	4337.4	3674.5	2969.9	172.1	143.9	432.4
% change from '88	9.5	9.5	3.4	8.2	3.3	3.5
1990:1	4375.0	3868.0	3157.2	185.7	141.2	440.6
2	4669.5	3965.6	3198.4	189.2	147.8	443.3
3	4763.2	4044.3	3238.9	194.3	150.3	449.0
4	4849.4	4113.3	3294.7	199.2	153.9	453.4
YEAR	4664.2	3997.8	3222.3	192.1	148.3	446.6
% change from '89	7.5	8.8	8.5	11.7	3.1	3.3

*Historical data. R = Revised. P = Preliminary.

1.70 MONEY AND CREDIT

See Table 17.0 - page 25

1988
FORECAST
DATA

Percent Change from July 1988 Forecast

+	.77%	Large Denom. Time Deposits
+	.44%	Consumer Install. Credit
+	.16%	Comm. & Indust. Loans at Banks
+	.03%	Consumer & Demand Deposits
+	.05%	Time Deposits
-	.65%	Mortg. at savings inst'ns

CONSUMER CREDIT IS EXPECTED TO CONTINUE AT FAST RATES THROUGHOUT THE REST OF THE YEAR.

Slightly slower rates in the growth of of consumer credit are expected in the first half of 1989 with resumption of growth in the rest of 1989 and afterwards.

KEDI's outlook for monetary and credit aggregates remains essentially unchanged when compared to the July forecast: moderate growth in money supply M1 and M2, significantly slower than in 1987 and previous years; regular growth in loans to businesses, slowing down a bit in 1989. Mortgage credit is expected to remain almost flat in the second half of the year while significant gains are forecast for next year, due to the expected revival of private housing activity in 1989.

TABLE 1.70
MONEY & CREDIT

Data for "Currency and demand deposits, M1", and "Time deposits, adjusted, M2" are averages of daily figures; other data are end of period figures.

INDICATOR	Currency and demand deposits M1, s.a.	Time deposit adjust. M2,s.a.	Cons. instal. credit n.s.a. **	Comm.& indus. loans at banks s.a.	Large denom. time dep. s.a.	Mortg. at all holders ** n.s.a.
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	bil. $
Year & Qtr.						
1987*	744.0	2861.9	613.0	540.1	485.4	2906.4
1988:1	760.5	2946.2	621.8	545.4	493.7	2948.9
2	771.2 P	2976.1 P	632.7 P	548.0 P	498.7 P	2987.8 P
3	791.9	3028.9	644.9	550.6	504.9	3041.6
4	795.7	3222.6	660.7	557.9	520.8	3043.2
YEAR	779.8	3043.4	660.7	557.9	520.8	3043.2
% change from '87	4.8	6.3	7.8	5.3	7.3	4.7
1989:1	803.0	3214.3	666.2	562.1	521.9	3121.7
2	813.8	3258.7	649.2	565.0	526.7	3200.4
3	827.4	3314.2	685.4	566.0	538.4	3284.0
4	833.1	3398.6	696.1	569.8	552.3	3308.1
YEAR	819.3	3296.4	696.1	569.8	552.3	3308.1
% change from '88	5.1	8.3	5.4	2.1	6.0	8.7
1990:1	838.2	3416.9	705.2	571.8	559.3	3400.2
2	849.9	3462.4	716.6	574.4	656.2	3448.4
3	862.7	3532.5	722.8	574.7	577.8	3509.5
4	873.8	3611.4	733.4	581.3	583.1	3527.7
YEAR	856.1	3505.8	733.4	581.3	583.1	3527.7
% change from '89	4.5	6.4	5.4	2.0	5.6	6.6

*Historical data. n.s.a: not seasonally adjusted.
s.a.: seasonally adjusted at annual rates.
R = Revised. P = Preliminary.

1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES

See Table 1.80 - page 27

AS FED CHAIRMAN ALLAN GREENSPAN INDICATED "THE FED AT THIS JUNCTURE MIGHT BE WELL ADVISED TO ERR MORE ON THE SIDE OF RESTRICTIVENESS RATHER THAN ON STIMULUS" (Wall Street Journal, July 29, 1988, p. 3).

It is anticipated that if the Fed decides to increase interest rate levels, such rise will not be significantly higher and will not be followed by further increases in the next three to four months.

KEDI maintains is's assumption that the Fed credit policy will not become more restrictive earlier than in 1989.

An interest rate rise in the near future may be an error if not substantiated, but it is better to make such "error" than trying to correct the matter when it is too late and with high expenses.

If one moves early then the costs are much smaller, and, finally in the current strong economic boom, modest increases in interest won't kill it off.

1988
FORECAST
DATA

Percent Change
from
July 1988
Forecast

+ 7.13%	Treas. Bills 2 mo. yield
+ 6.41%	Conv. Mortg. Rate
+ 4.32%	Prime Rate
+ 3.50%	20 Year Govt. Bond Yield
+ .98%	Aaa Corp. Bond
- .35%	S & P's 500 Avg.

TABLE 1.80
INTEREST RATES, YIELDS & SECURITIES PRICES
Quarterly averages of monthly figures.

INDICATOR Unit	Treas. bills 3 mo. yield %	Prime rate %	Conv. mortg (confr. rate) %	Aaa corp. bond rate %	30 yr. Govt. bonds yield %	S & P's 500 Avg 1941-43 = 10
Year & Qtr.						
1987*	5.82	8.21	8.94	9.38	8.59	286.83
1988:1	5.[illegible]6	8.59	9.24	9.56	8.63	258.12
2	6.57 P	8.97 P	9.48 P	9.69 P	8.81 P	264.22
3	6.71	9.83	9.76	9.98	8.98	274.44
4	6.80	10.00	10.04	10.11	9.06	281.20
YEAR	6.46	9.35	9.63	9.84	8.87	269.50
% change from '87	11.0	13.9	7.7	4.9	3.3	-6.0
1989:1	6.96	10.24	10.32	10.24	9.04	278.40
2	7.08	10.12	9.86	9.98	8.49	281.54
3	6.85	9.80	9.51	9.74	8.76	297.96
4	6.85	9.80	9.48	9.84	8.85	300.56
YEAR	6.93	9.99	9.79	9.95	8.79	289.62
% change from '88	7.4	6.9	1.7	1.2	-1.0	7.5
1990:1	6.68	9.75	9.52	9.96	8.90	301.48
2	6.54	9.68	9.59	9.92	8.94	303.72
3	6.58	9.59	9.64	9.98	8.72	311.49
4	6.71	9.50	9.60	9.63	8.30	317.28
YEAR	6.63	9.63	9.59	9.87	8.71	308.49
% change from '89	-4.4	-3.6	-2.1	-.8	-.8	6.5

*Historical data. R = Revised. P = Preliminary.

2.0 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, comparisons of accuracy of Private Housing Starts in 1987:4 has been selected. Actual number is in the Survey of Current Business, May 1988 issue, Blue Pages (U. S. Department of Commerce, Washington, D.C., monthly). Forecast data are in The Journal of Business Forecasting Methods & Systems, Vol. 5, No. 4, pp. 36-42, Winter 1986/87.

TABLE 2.0

COMPARISONS OF ACCURACY OF PREDICTIONS
(Private Housing Starts, mil. units, 1987:4)
Actual figure: 1.5

Forecaster	Date of Forecast	Forecast	Accuracy %
AmeriTrust, Cleveland	12/86	1.7	+13.3
Core State Financial Corp., Philadelphia	12/86	1.7	+13.3
Fidelity Bank, Philadelphia	12/86	1.8	+20.0
First National Bank of Chicago, Chicago	12/86	1.6	+ 6.7
First Pennsylvania Bank, Philadelphia	12/86	1.9	+26.7
Irving Trust, New York	12/86	1.6	+ 6.7
LaSalle National Bank, Chicago	12/86	1.6	+ 6.7
KEDI, Inc., Kent	12/86	1.7	+13.3
Marine Midland Bank, New York	12/86	1.7	+13.3
Shawmut of Boston, Boston	12/86	1.7	+13.3
Valley National Bank, Arizona	12/86	1.7	+13.3
Metropolitan Life Ins. Co.	12/86	1.6	+ 6.7
Prudential	12/86	1.8	+20.0
Morgan Guaranty Trust Co.	12/86	1.7	+13.3
National City Bank, Ohio	12/86	1.6	+ 6.7
Manufacturers Hanover Trust	12/86	1.7	+13.3
Harris Trust		1.8	+20.0
Wells Fargo		1.7	+13.3

3.00 HISTORICAL DATA SOURCES

For reader's convenience listed below are sources of historical data series for the forecasts appearing in the Survey. The first column of the following table refers to the table in this Survey, the second column to the name of forecast series, and the third column identifies the source of historical data. The sources are: **Survey of Current Business** referred to as SCB (monthly, U. S. Department of Commerce, Washington, D.C.), **Federal Reserve Bulletin,** FRB, (Board of Governors of the Federal Reserve System, Washington, D.C. monthly), **Index of Industrial Production,** G.12.3 Release, IIP, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly.)

TABLE 3.00

HISTORICAL DATA SOURCES

Table Number	Data Series	Source
1.11 Selected Indicators of Real Growth I.	Gross national product, 1982 $	SCB, Table 1.2
	Index of industrial production	IIP, p. 2.
	Unemployment rate	SCB, Blue pages
	Capacity utilization rate	FRB, Table 2.11
	Private housing starts	SCB, Blue pages
	Car sales	SCB, Blue pages
1.12 Selected Indicators of Real Growth II.	Personal Cons. expend: Durables,	SCB, Table 1.1
	Nondurables	SCB, Table 1.1
	Services	SCB, Table 1.1
	Retail sales: Total	SCB, Blue pages
	Durables	SCB, Blue pages
	Nondurables	SCB, Blue pages
1.12 Real GNP	Gross national product, 1982 $	SCB, Table 1.2
	Personal consumpt. expenditures	SCB, Table 1.2
	Gross private dom. investment	SCB, Table 1.2
	Net exports	SCB, Table 1.2
	Federal purchases	SCB, Table 1.2
	State and local purchases	SCB, Table 1.2
1.21 Prices	Consumer price index	SCB, Blue pages
	Producer price index	SCB, Blue pages
	Implicit price deflators: GNP	SCB, Table 7.1
	Personal consumpt. expenditures	SCB, Table 7.1
	Federal purchases	SCB, Table 7.1
	State and local purchases	SCB, Table 7.1
1.22 Nominal GNP	Gross national product	SCB, Table 1.1
	Personal consumpt. expenditures	SCB, Table 1.1
	Gross private dom. investment	SCB, Table 1.1
	Net exports	SCB, Table 1.1
	Federal purchases	SCB, Table 1.1
	State and local purchases	SCB, Table 1.1

(Table 3.00 continues on the following page.)

TABLE 3.00

HISTORICAL DATA SOURCES (CONTINUED)

Table Number	Data Series	Source
1.30 Employment and Labor	Population	SCB, Blue pages
	Civilian labor force	SCB, Blue pages
	Employment	SCB, Blue pages
	Agriculture	SCB, Blue pages
	Non-agriculture	SCB, Blue pages
	Unemployment rate	SCB, Blue pages
1.41 Housing	Single-family housing starts	SCB, Blue pages
	Multifamily housing starts	SCB, Blue pages
	Mobile home shipments	SCB, Blue pages
	Permits authorized	SCB, Blue pages
	1-family unit price, new	FRB, Table 2.14
	1-family unit price, existing	FRB, Table 2.14
1.42 Autos	Passenger cars: Total sales	SCB, Blue pages
	Domestic	SCB, Blue pages
	Imported	SCB, Blue pages
	Dealers inventories	SCB, Blue pages
	Factory shipments	SCB, Blue pages
	Light-duty truck sales	SCB, Blue pages
1.50 Federal State & Local Budgets	Federal govt: Income taxes	SCB, Table 3.2
	Corporate profit tax accruals	SCB, Table 3.2
	Surplus/Deficit	SCB, Table 3.2
	State & local govt:Income taxes	SCG, Table 3.3
	Corporate profit tax accruals	SCG, Table 3.3
	Surplus/Deficit	SCB, Table 3.3
1.60 Income	Personal income	SCB, Table 2.1
	Personal disposable income	SCB, Table 2.1
	Compensation of employees	SCB, Table 1.11
	Corporate after tax profits	SCB, Table 1.11
	Personal saving	SCB, Table 2.1
	Average weekly earnings	SCB, Blue pages
1.70 Money and Credit	Currency and demand deposits, M1	FRB, Table 1.21
	Time deposits, adjusted, M2	FRB, Table 1.21
	Consumer installment credit	FRB, Table 1.55
	Commercial and industrial loans	FRB, Table 1.23
	Large denomination time deposits	FRB, Table 1.21
	Mortgages at S&L Associations	FRB, Table 1.54
1.80 Interest Rates, Yields, & Securities Prices	Treasury bills (3 mo) yield	FRB, Table 1.35
	Prime rate	FRB, Table 1.33
	Conventional mortgage rate	FRB, Table 1.53
	Aaa corporate bonds rate	FRB, Table 1.35
	20 years government bonds yield	FRB, Table 1.35
	Standard & Poor's 500 average	FRB, Table 1.36

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KEDI ECONOMIC SURVEY

September 1, 1988

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SOURCES:

U.S.Department of Commerce second estimate of 1988:2, National Income and Product data, August 20, 1988.

Board of Governors of the Federal Reserve System release of the Index of Industrial Production, August 1988.

The latest available data on prices, employment, industrial and financial developments.

0.00 INTRODUCTION

0.01 EXECUTIVE SUMMARY

HIGHLIGHTS

Real Growth

Recent U.S. Dept. of Commerce survey shows that businesses plan to continue spending at record levels on plant and equipment

Prices

Recently announced .6% jump of Producer Price Index for finished goods in August was an isolated experience of no major concern.

Employment & Labor

In 1989 the service sector is expected to be the main source of new jobs, followed by construction.

Housing

The rebound in housing starts is expected to take place in 1989, stimulated by declines in mortgage rates.

Automobiles

The eight automakers plan to increase production by 8.7% in 1988:4 to about 1.9 million cars.

Budgets

For April, the Federal finances showed a surplus: $109.6 bil receipts and $94.4 bil outlays, a surplus higher than a year ago.

Income

KEDI data for corporate profits has been revised upwards underscoring the expected healthy pace for the rest of this year.

Money & Credit

Data point to significant increases in all kinds of consumer credit for the rest of this year and in 1989.

Interest Rates, Yields & Securities Prices

No further increases of interest rates initiated by the Federal Reserve are anticipated.

0.02 ASSUMPTIONS

		Last Update
1.	In 1988, the weighted price of oil will increase slightly as compared to 1987. It will continue increasing in the 1989-1990 period.	April 1986
2.	A longer-lasting relaxation in monetary and credit policies will last for the most of 1988. More tightening is expected in 1989.	February 1988
3.	In 1988 below average and in 1989 good crops in most of the main producing countries are anticipated.	June 1988
4.	Foreign trade with China will expand in 1988 and following years.	May 1987
5.	Average rates of growth in 1985-1990 in major industrial countries are anticipated: West Germany 3.0%; Italy 2.1% Great Britian 2.1%; France 2.0%; Japan 3.1%; Canada 2.6%	September 1987
6.	No drastic changes in international relationships are anticipated.	Permanent Assumption

0.03 FORECAST HIGHLIGHTS

*	Table 0.00 on page 3 shows forecast data of selected indicators of the September 1988 KEDI forecast.	
*	In 1988 solid growth is expected. It will slow down a bit in the first half of 1989.	January 1987
*	The upward trend will continue throughout 1990-1991.	January 1987
*	Forecast data for 1988-1991 do not point to to recession or major downturn.	January 1987
*	In 1988 interest rates will remain, in average, at low levels throughout most of the year. Some increases are anticipated in second half 1988.	March 1988
*	Federal budget deficits will keep declining in in 1988 and the following years.	January 1987
*	The 1987 export-import gap will start closing to a more acceptable level.	January 1987

TABLE 0.00

KEDI FORECAST HIGHLIGHTS

Data for 1988, 1989 and 1990 are on pages indicated below.

Indicator	Unit	1987	1991	1992	1993
Gross national	bil. 82$	3847.0	4288.3	4395.5	4509.8
product, p. 5	% change	3.1	2.9	2.5	2.6
Index of indust.	1977=100	129.8	147.8	152.6	157.8
prod., p. 5	% change	3.8	3.2	3.3	3.4
Capacity	%	82.6	83.0	81.7	81.3
utiliz., p. 5	% change	3.8	.2	-1.6	-.5
Unemployment	%	6.2	5.6	5.5	5.4
rate, p. 5	% change	-12.0	.6	-1.2	-1.1
Private housing	mil.units	1.6	2.0	1.9	2.0
starts, p. 5	% change	-5.8	4.7	-2.0	3.5
Car sales,	mil.units	10.3	11.5	11.6	12.0
p. 5	% change	-10.7	3.9	1.0	4.0
Implicit GNP	1982=100	117.7	136.3	141.2	146.4
price def.,p.11	% change	3.6	3.5	3.6	3.7
Consumer Price	1967=100	113.7	133.9	138.2	143.2
Index, p. 11	% change	3.7	3.9	3.2	3.6
Prod.Price Index	1967=100	105.5	125.1	130.7	135.7
(fin.goods),p.11	% change	2.3	4.5	4.5	3.8
Federal Deficit	bil. $	-151.4	-100.1	-83.4	-68.0
p. 21	% change	-27.4	-10.5	-16.7	-18.4
Personal Income	bil. $	3780.0	4985.3	5329.3	5723.7
p. 23	% change	6.1	7.8	6.9	7.4
Prime Rate	%	8.2	9.3	10.0	10.9
p. 27	% change	-1.5	-3.0	7.5	8.0
Mortgage Rate	%	9.2	10.2	9.9	10.1
p. 27	% change	-6.8	6.0	-2.7	1.8
Currency+demand	bil. $	744.0	901.9	961.4	1026.8
deposits , p. 25	% change	11.5	6.0	6.6	6.8
Commercial+ind.	bil. $	540.1	598.7	605.2	3603.0
loans, p. 25	% change	5.1	3.0	2.9	2.1
Raw steel	mil.sh.tons	89.2	94.7	96.2	95.1
production	% change	5.4	.6	-1.1	-.1
Electric power	mil.kw-hr	2572	3060.4	3173.6	3300.6
production	% change	4.7	3.6	3.7	4.0
Bituminous coal	mil.sh.tons	913	945	973.3	984.1
production	% change	2.5	1.2	1.3	1.5
Crude oil	avg. daily bbl.	3033	3142	3176.9	3218.2
output	% change	-.3	2.0	1.1	1.3
Retail sales	bil. $	1510.6	1999.7	2137.7	2287.4
p. 7	% change	5.8	7.2	6.9	7.0

Numbers in "% change" rows show percent changes over the previous year.

1.10 REAL GROWTH, CONSUMER SPENDING, AND RETAIL SALES

1.11 REAL GROWTH

See Table 1.11
Page 5

RECENT U.S. DEPT. OF COMMERCE SURVEY CONDUCTED IN JULY AND AUGUST SHOWS THAT BUSINESSES PLAN TO CONTINUE SPENDING AT RECORD LEVELS ON PLANT AND EQUIPMENT, ESPECIALLY MANUFACTURING INDUSTRIES SUCH AS PAPER, ELECTRICAL MACHINERY AND NONFERROUS METALS.

The outlook for the overall growth of the economy for the balance of this year and 1989 remains optimistic. A slower but still healthy growth is predicted with no recession or major slowdown.

Indications for strong growth, not as strong as experienced in 1988:2, however, include:

* Unfilled factory orders increased in July to $446.7 bil. from $443.36 bil in June.
* Industrial output in July rose .8%, the ninth increase in a row, and double the rise of .4% in June indicating further strong gains in months ahead.
* Factory shipments rose to $220.64 bil. in June, seasonally adjusted, from a revised $217.48 bil. in May.
* Construction spending rose in July to a seasonally adjusted $401 bil. from a revised $392.6 bil.
* Production of raw steel rose to 8.3 mil. tons in July from 8.0 mil. tons in June.

SIGNALS THAT THE ECONOMY IS SLOWING:

* Average weekly state unemployment claims rose in July to 325000 from 292000 in June.
* New orders fell in July by .1% compared to June orders.
* Leading indicators fell in July to 192.1% from a revised 193.7% in June.

1988
FORECAST
DATA

Percent Change
from
August 1988
Forecast

+ 1.46%	Unemployment
+ .28%	Index Indus. Prod.
0.00%	Autos
- .39%	Capac. Util.
- .76%	GNP
-10.89%	Private Housing Starts

TABLE 1.11
SELECTED INDICATORS I.

Quarterly data are seasonally adjusted at annual rates.

INDICATOR	GNP	Index of ind. prod.	Unem- ploy ment	Capacity util'n rate	Private housing starts	Auto sales
Unit	$82 bil.	1977=100	%	%	mil.	mil.
Year & Qtr.						
1987*	3847.0	129.8	6.20	82.6	1.621	10.3
1988:1*	3956.1	134.5	5.73	81.4 R	1.485	10.7
2	3988.1 P	136.8 R	5.47	82.9 R	1.505	10.6P
3	3949.2	137.3	5.51	83.0	1.554	10.9
4	3970.1	137.7	5.53	83.0	1.588	11.0
YEAR	3965.9	136.6	5.56	82.6	1.533	10.8
% change from '87	3.1	5.2	-10.3	-.0	-5.4	4.9
1989:1	4049.5	138.1	5.58	82.9	1.592	10.2
2	4052.6	138.6	5.61	82.9	1.738	10.8
3	4076.4	140.8	5.57	82.8	1.863	11.4
4	4093.1	142.3	5.54	82.7	1.832	10.9
YEAR	4067.9	139.9	5.58	82.8	1.756	10.8
% change from '88	2.6	2.5	.3	.3	14.6	.2
1990:1	4126.1	142.0	5.60	82.7	1.678	10.8
2	4147.2	142.8	5.57	82.8	1.866	10.9
3	4188.1	144.9	5.57	82.9	2.034	11.4
4	4208.5	146.0	5.50	82.9	1.903	11.0
YEAR	4167.5	143.9	5.56	82.8	1.870	11.0
% change from '89	2.4	2.8	-.3	0.0	6.5	1.8

*Historical data.

R = Revised. P = Preliminary.

1.12 CONSUMER SPENDING AND RETAIL SALES

See Table 1.12 - page 7

1988
FORECAST
DATA

Percent Change
from
August 1988
Forecast

+	.13%	Pers. Cons. Exp. Nondurable
+	.07%	Retail Sales Nondurable
+	.05%	Pers. Cons. Exp. Nondurable
-	.06%	Retail Sales Total
-	.22%	Retail Sales Durable
-	.33%	Pers. Cons. Exp. Services

CONSUMERS WILL CONTINUE SPENDING IN THE COMING MONTHS, ALTHOUGH NOT AS STRONG AS IN THE FIRST HALF OF 1988.

July growth in consumer spending was .5%, down slightly from June. Expect a .6% monthly rise for the the balance of 1988; flat in August then gradually increasing.

KEDI prediction of retail sales in the second half of this year shows a significant rebound from this summer's slowdown.

Increases in apparel with constant gains in sales of motor vehicles and parts are expected to be the main factors pushing the retail sales up in coming months starting in September.

This year's Christmas season is predicted to bring record sales.

Forecast data no not indicate any consumer pause--neither in the rest of this year, nor in 1989.

TABLE 1.12

CONSUMER SPENDING AND RETAIL SALES

Quarterly data are seasonally adjusted at annual rates.

	*--Personal Cons. Expend.-**			------Retail Sales-------*		
INDICATOR	Durables	Nondurables	Services	Total	Durables	Nondurables
Unit	bil.$	bil.$	bil.$	bil.$	bil.$	bil.$
Year & Qtr.						
1987*	421.9	997.9	1592.3	1510.6	559.1	951.5
1988:1	437.8	1016.2	1674.1	1565.5 R	596.1	969.1
2	448.2 P	1035.7 P	1705.2 P	1620.0 p	596.9 P	1023.1P
3	461.4	1053.6	1631.9	1640.1	618.7	1021.4
4	470.3	1074.9	1643.3	1685.8	631.0	1054.8
YEAR	454.4	1045.1	1663.6	1627.8	610.7	1017.1
% change from '87	7.7	4.7	4.5	7.8	9.2	6.9
1989:1	473.0	1082.2	1751.2	1699.1	619.0	1080.1
2	481.9	1101.5	1760.5	1727.1	637.2	1089.9
3	489.7	1125.8	1870.1	1770.0	665.8	1104.2
4	498.0	1137.9	1907.8	1793.0	689.9	1103.1
YEAR	485.6	1111.8	1822.4	1747.3	653.0	1094.3
% change from '88	6.9	6.4	9.5	7.3	6.9	7.6
1990:1	503.4	1146.6	1965.8	1817.0	697.2	1119.8
2	511.6	1159.8	1829.8	1849.1	717.1	1132.0
3	522.9	1175.1	2093.6	1875.3	734.7	1140.6
4	537.1	1188.2	2134.2	1920.3	754.7	1165.6
YEAR	518.8	1167.4	2005.8	1865.4	725.9	1139.5
% change from '89	6.8	5.0	10.1	6.8	11.2	4.1

* Historical data. R = Revised. P = Preliminary.

1.13 REAL GNP

See Table 1.13
Page 9

1988
FORECAST
DATA

Percent Change
from
August 1988
Forecast

+ 1.21%	Federal Govt. Purch.
+ .03%	State Local Purch.
- .01%	GNP
- .11%	Pers. Cons. Expend.
- .25%	Gross Private Dom. Inv.
- .35%	Net Exports

NO SURPRISES IN THE SECOND REVISION OF THE REAL GNP AND COMPONENTS FOR 1988:2 AS THE REVISED GNP TOTAL REMAINED UNCHANGED COMPARED TO THE FIRST REVISION.

Data for components of GNP have not changed significantly, except for the downward revision of Gross Private Domestic Investment, mainly due to revised data for the change in business inventories and inventories of agricultural products. Revised data, again, underline healthy growth of the economy. A positive sign is that the figure for net exports remained unchanged at $-90.1 bil in 1988:2 compared to $-109.0 bil in 1988:1, an almost $20 bil drop indicating a significant improvement in the US trade.

TABLE 1.13
REAL GNP

Quarterly data are seasonally adjusted at annual rates.

INDICATOR	*-----------Gross National Product----------------*					
	Total	Pers. cons. expend.	Gross pvt.dom. investm.	Net exports	Fed. govt. purch.	State local purch.
Unit	$82 bil.	$82 bil.	$82 bil.	$82 bil.	$82 bil.	$82 bil.
Year & Qtr.						
1987*	3847.0	2521.0	674.8	-128.9	339.0	441.2
1988:1	3956.1	2559.8	728.9	-109.0	327.8	448.7
2	3988.1 P	2577.2 P	717.7 P	-90.1 P	331.0 P	452.3 P
3	3949.2	2527.6	724.7	-87.0	330.7	453.2
4	3970.1	2538.6	729.5	-85.4	331.1	456.3
YEAR	3965.9	2550.8	725.2	-92.9	330.1	452.6
% change from '87	3.1	1.2	7.5	-27.9	-2.6	2.6
1989:1	4049.5	2607.6	731.3	-81.2	333.6	458.2
2	4052.6	2604.3	735.4	-77.3	329.9	460.3
3	4076.4	2622.7	739.7	-76.8	328.7	462.1
4	4093.1	2634.7	736.1	-72.5	330.1	464.7
YEAR	4067.9	2617.3	735.6	-77.0	330.6	461.3
% change from '88	2.6	2.6	1.4	-17.1	.1	1.9
1990:1	4126.1	2643.1	740.2	-70.2	333.1	466.2
2	4147.2	2533.4	742.1	69.1	335.2	467.4
3	4188.1	2702.5	744.2	-65.1	337.2	469.3
4	4208.5	2714.1	746.2	-63.2	339.3	472.1
YEAR	4167.5	2648.3	743.2	-32.4	336.2	468.8
% change from '89	2.4	1.2	1.0	-58.0	1.7	1.6

*Historical data.

R = Revised. P = Preliminary.

1.20 PRICES AND NOMINAL GNP

1.21 PRICES

See Tables 1.21 - page 11

1988
FORECAST
DATA

Percent Change
from
August 1988
Forecast

+ .65%	GNP
0.00%	Consumer Price Index
0.00%	State Local Purch.
- .24%	Federal Govt. Purch.
- .30%	Producer Price Index
- 1.69%	Pers. Cons. Expend.

RECENTLY ANNOUNCED .6% JUMP OF PRODUCER PRICE INDEX FOR FINISHED GOODS IN AUGUST IS WIDELY CONSIDERED TO BE TEMPORARY AND LIKELY TO BE THE LAST BAD NEWS OF ANY MAJOR CONSEQUENCE. IT WAS CAUSED BY THE INCREASE IN ENERGY AND FOOD PRICES.

Excluding food and energy, producer prices rose only moderately at .3%.

As current spot prices indicate, the leveling off and possible declines in oil prices are on the way. While drought effects are likely to show up for months to come, few forecasters expect any more big increases such as the 1.1% increase in June.

Consumer Prices rose in July to 118.5% from 118.0% in June, and moderate growth is expected to continue in coming months without any abrupt upward swings.

TABLE 1.21
PRICES

Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

INDICATOR	*---Indexes--*		*-------Price deflators--------*			
	Cons. price index n.s.a.**	Prod. price index n.s.a.**	Gross Nat'l Prod.	Pers. cons. expend.	Fed. govt. purch.	State local purch.
Unit	1982-4= 100	1982= 100	1982= 100	1982= 100	1982= 100	1982= 100
Year & Qtr.						
1987*	113.6	105.4	117.7	119.5	112.7	123.0
1988:1*	116.1	106.1	119.4	122.2	115.2	126.5
2	117.4 P	108.2 P	123.7 P	115.3 P	115.3 P	128.4P
3	119.0	109.0	122.4	124.5	117.0	130.4
4	119.9	111.8	123.6	125.6	117.4	131.5
YEAR	118.1	108.8	122.3	121.9	116.2	129.2
% change from '87	3.9	3.2	3.9	2.0	3.1	5.0
1989:1	121.8	113.0	124.0	126.8	120.0	132.7
2	122.5	114.1	124.9	128.4	120.8	133.3
3	124.1	115.3	127.0	132.9	122.0	135.7
4	125.7	116.0	128.5	134.5	122.4	137.1
YEAR	123.5	114.6	126.1	130.7	121.3	134.7
% change from '88	4.6	5.4	3.1	7.2	4.4	4.3
1990:1	127.0	117.6	130.1	136.8	123.6	138.0
2	128.1	118.8	131.0	138.2	124.8	138.9
3	129.5	120.1	132.1	140.3	127.2	139.8
4	131.0	122.3	133.5	142.2	128.5	141.6
YEAR	128.9	119.7	131.7	139.4	126.0	139.6
% change from '89	4.4	4.5	4.4	6.7	3.9	3.6

*Historical data. R = Revised. P = Preliminary.
**CPI: All Urban Consumers; PPI: Finished Goods.

1.22 NOMINAL GNP

See Table 1.22 - page 13

1988
FORECAST
DATA

Percent Change
from
August 1988
Forecast

+ 1.01%	Federal Govt. Purch.
+ .63%	GNP
+ .32%	State Local Purch.
+ .22%	Gross Private Dom. Inv.
- 1.08%	Net Exports
- 1.83%	Pers. Cons. Expend.

THE U.S. BALANCE OF TRADE IS IMPROVING AS SHOWN IN COMPARING THE $-112.1 BIL. DEFICIT IN 1988:1 WITH THE $-88.6 BIL. IN 1988:2.

Preliminary data for July indicate further improvements are on the way.

Revised data of 1988:2 nominal income and components by the U.S. Commerce Department are only slightly different from data of the first revision. The main differences are that the new data for GNP total is a bit higher due to small upward revision of the GNP price deflator and data for federal spending are up slightly due to the upward revision of prices and Federal Governemt spending in constant $. A positive sign is a further downward revision of net exports, from $-90.6 bil previously reported to $-88.6 bil now.

TABLE 1.22
NOMINAL GNP

Quarterly data are seasonally adjusted at annual rates.

INDICATOR	Gross National Product					
	Total	Pers. cons. expend.	Gross pvt. dom invest.	Net exports	Fed. govt. purch.	State local purch.
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	bil. $
Year & Qtr.						
1987*	4526.7	3012.1	712.9	-123.0 R	382.0	542.8
1988:1*	4724.5	3128.1	763.4	-112.1	377.7	567.5
2	4819.7 P	3189.1 P	758.2 P	-88.6 P	381.6 P	579.4P
3	4833.8	3146.9	761.8	-86.1	386.9	591.0
4	4907.0	3188.5	763.2	-87.1	388.7	600.0
YEAR	4849.3	3109.4	761.6	-93.5	383.7	584.5
% change from '87	7.1	3.2	6.8	-24.3	.5	7.7
1989:1	5021.4	3306.4	666.7	-87.0	400.3	608.0
2	5061.7	3343.9	768.5	-84.3	398.5	613.6
3	5177.0	3485.6	772.8	-81.2	401.0	627.1
4	5259.6	3543.7	770.9	-79.6	404.0	637.1
YEAR	5129.9	3419.9	744.7	-83.0	401.0	621.4
% change from '88	5.8	10.0	-2.2	-11.2	4.5	6.3
1990:1	5368.1	3615.8	775.1	-75.7	411.7	643.4
2	5432.8	3501.2	779.6	-74.8	418.3	649.2
3	5532.5	3791.6	782.2	-70.2	428.9	656.1
4	5618.3	3859.5	783.5	-67.5	436.0	668.5
YEAR	5487.9	3692.0	780.1	-72.0	423.7	654.3
% change from '89	7.0	8.0	4.8	-13.2	5.7	5.3

*Historical data. R = Revised. P = Preliminary.

1.30 EMPLOYMENT AND LABOR

See Table 1.30 - page 15

1988
FORECAST
DATA

Percent Change
from
August 1988
Forecast

+ 1.09%	Unemployment rate
+ .06%	Civilian Labor Force
+ .02%	Population
+ .02%	Non-Agriculture
+ .02%	Total Employed
0.00%	Agriculture

IN 1989 THE SERVICE SECTOR IS EXPECTED TO BE THE MAIN SOURCE OF NEW JOBS, FOLLOWED BY CONSTRUCTION.

New jobs in manufacturing are expected to keep increasing but not at such percipitous rates experienced this year.

Employment in mining and utilities will remain essentially flat.

In manufacturing, the largest increases in 1989 are expected in electrical and nonelectrical machinery, chemicals, plastics, and instruments.

Forecast of employment remains essentially unchanged when compared to the August forecast: flat for the rest of this year, up slightlty in the first half of 1989 and declining afterwards.

TABLE 1.30
EMPLOYMENT & LABOR

Quarterly data are seasonally adjusted at annual rates.

			-------Employment-------			
INDICATOR	Population	Civil. labor force	Total	Agricult.	Non-agric.	Unemployment rate
Unit	mil.	mil.	mil.	mil.	mil.	%
Year & Qtr.						
1987*	244.7	119.9	113.4	3.2	109.2	6.20
1988:1*	247.9	121.1	114.2	3.2	111.0	5.73
2	249.6	121.6 P	114.9 P	3.2	111.7 P	5.47P
3	250.4	122.4	115.7	3.2	112.5	5.51
4	251.5	123.2	116.4	3.2	113.2	5.53
YEAR	249.8	122.1	115.2	3.2	112.0	5.56
% change from '87	2.1	1.8	1.7	0.0	2.6	-10.32
1989:1	253.9	123.4	116.5	3.2	113.3	5.58
2	254.3	124.1	117.1	3.2	113.9	5.61
3	255.1	125.0	118.0	3.2	114.8	5.57
4	256.0	125.5	118.5	3.2	115.3	5.54
YEAR	254.8	124.5	117.6	3.2	114.4	5.58
% change from '88	2.0	2.0	2.0	0.0	2.1	.27
1990:1	257.4	126.2	119.1	3.2	115.9	5.60
2	258.9	127.1	120.0	3.2	116.8	5.57
3	260.2	127.9	120.8	3.2	117.6	5.57
4	261.8	128.1	121.1	3.2	117.9	5.50
YEAR	259.6	127.3	120.2	3.2	117.0	5.56
% change from '89	1.9	2.3	2.3	0.0	2.3	-.27

*Historical data. R = Revised. P = Preliminary.

1.41 HOUSING

See Table 1.41 - Page 17

1988
FORECAST
DATA

Percent Change
from
August 1988
Forecast

- .04%	1-Family Unit price Existing
- .50%	1-Family Unit price New
- .76%	Mobile Home Shipments
- .96%	Permits Issued
- 1.39%	Multiple Family Housing Starts
- 2.94%	Single Family Housing Starts

THE REBOUND IN HOUSING STARTS IS EXPECTED TO TAKE PLACE IN 1989, STIMULATED BY DECLINES IN MORTGAGE RATES, EXPECTED LOW VACANCY RATES IN APARTMENTS, AND LOW INVENTORY OF SINGLE FAMILY HOUSES.

Housing starts in July rose to a seasonally adjusted rate of 1.489 mil. units from 1.454 mil units in June, a 2.4% increase while starts of multi-family units rose for the first time in three months. For the rest of the year, mediocre performance of the housing market is expected by the majority of economists. Now, industry analysts expect the figure of housing starts this year around 1.450 mil units. KEDI's forecast is optimistic at 1.535 mil units. The August figure is expected to be 1.568 mil units, and the figure for 1988:4 is 1.588 making 1.535 mil units for the year.

TABLE 1.41
HOUSING

Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

INDICATOR Unit	Single family housing starts mil.	Multi-family housing starts mil.	Mobile home ship-ments mil.	Permits author-ized mil.	1-Fam. unit price new** tho. $	1-Fam. unit price exist** tho. $
Year & Qtr.						
1987*	1.146	.474	.233	1.535	127.9	106.2
1988:1	1.098	.387	.207	1.384	139.2	109.8
2	1.076P	.429 P	.227 P	1.460 P	139.7 P	112.6P
3	1.120	.434	.241	1.520	140.9	114.8
4	1.128	.460	.242	1.543	141.0	115.8
YEAR	1.106	.427	.229	1.477	140.2	113.2
% change from '87	-3.5	-9.9	-1.6	-3.8	9.6	6.6
1989:1	1.142	.450	.230	1.428	142.4	119.7
2	1.237	.501	.245	1.604	144.9	120.7
3	1.305	.558	.252	1.746	152.6	124.5
4	1.282	.550	.268	1.759	155.1	127.2
YEAR	1.242	.515	.249	1.634	148.8	123.0
% change from '88	12.3	20.6	8.5	10.7	6.1	8.6
1990:1	1.184	.494	.238	1.524	157.1	130.8
2	1.296	.570	.251	1.689	159.7	132.4
3	1.430	.604	.290	1.819	165.3	135.7
4	1.311	.592	.281	1.843	168.7	137.0
YEAR	1.305	.565	.265	1.719	162.7	134.0
% change from '89	5.1	9.8	6.5	5.2	9.4	8.9

*Historical data. R = Revised. P = Preliminary.

**Average. Not seasonally adjusted.

1.42 AUTOMOBILES

See Table 1.42 - page 19

1988
FORECAST
DATA

Percent Change from August 1988 Forecast

+ 1.88%	Total Light Truck Sales
+ .66%	Domestic Cars Total
0.00%	Total Car Sales
0.00%	Imported Car Sales
0.00%	Dealer Inventory
0.00%	Shipments

THE EIGHT AUTOMAKERS PLAN TO INCREASE PRODUCTION BY 8.7% IN 1988:4 TO ABOUT 1.9 MILLION CARS.

Though the August 21-31, 1988 period for sales of cars and light trucks fell off slightly from a year earlier, it is NOT an indication of weakness. August 1987 incentives were broader and more generous than this year's, with interest rates as low as 1.9%.

A good indicator of the expected strength in the auto market in coming months is the August 1988 production of U.S. vehicles: a 17.1% jump from a year earlier of 813300 cars compared to 693800 units in August 1987.

TABLE 1.42
AUTOMOBILES

Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

INDICATOR	Total car sales	Car sales dom.	Car sales imp.	Dealer car inventory n.s.a. **	Factory car shipments	Total light truck sales
Unit	mil.	mil.	mil.	mil.	mil.	mil.
Year & Qtr.						
1987*	10.3	7.1	3.2	1.7	4.1	3.8
1988:1	10.7	7.6	3.1	1.6	7.5	4.1
2	10.6 P	7.5 P	3.1 P	1.6 P	7.6 P	4.1P
3	10.9	7.7	3.2	1.8	7.9	4.2
4	11.0	7.8	3.2	1.6	7.8	3.9
YEAR	10.8	7.7	3.2	1.6	7.7	4.1
% change from '87	4.9	7.7	0.0	-5.9	87.8	7.2
1989:1	10.2	7.0	3.2	1.7	7.0	3.8
2	10.8	7.6	3.2	1.8	7.6	4.1
3	11.4	8.1	3.3	1.8	8.3	4.3
4	10.9	7.7	3.2	1.7	7.7	4.0
YEAR	10.8	7.6	3.2	1.7	7.7	4.0
% change from '88	.2	-.5	.8	6.2	-.6	-.6
1990:1	10.8	7.6	3.2	1.7	7.9	4.2
2	10.9	7.6	3.3	1.8	8.0	4.3
3	11.4	8.0	3.4	1.8	8.4	4.5
4	11.0	7.7	3.3	1.8	8.0	4.4
YEAR	11.0	7.7	3.3	1.8	8.1	4.3
% change from '89	1.8	-.5	2.3	5.9	5.6	7.4

*Historical data. R = Revised. P = Preliminary.

**End of period data.

1.50 BUDGETS

See Table 1.50 - page 21

FOR APRIL, THE FEDERAL FINANCES SHOWED A SURPLUS; $109.6 BIL RECEIPTS AND $94.4 BIL OUTLAYS, A SURPLUS SIGNIFICANTLY HIGHER THAN A YEAR EARLIER.

Last available data on actual Federal receipts and expenditures point in the right direction of reducing the Federal deficit.

Data on Table 1.5 on the following page point to constantly declining deficits, expected to accelerate in 1989 and afterward.

Taking into account growing surpluses of state and local governments, the forecast is positive: the total deficit of the Government sector (i.e., Federal Government and State and Local Governments) is expected to keep declining at fairly good rates.

KEDI forecast points to the zero balance in 1991.

1988
FORECAST
DATA

Percent Change
from
August 1988
Forecast

+ .45%	Federal Surplus/ Deficit
+ .17%	State Local Corp. Tax Accrued
+ .16%	Corporate Profit Tax Accrued
+ .06%	State Income Tax
+ .02%	Federal Income Tax
0.00%	State Surplus Deficit

TABLE 1.50
FEDERAL, STATE AND LOCAL BUDGETS
Quarterly data are seasonally adjusted at annual rates.

INDICATOR	FEDERAL Income taxes	FEDERAL Corp. profits tax accru.	FEDERAL Surplus /deficit	STATE AND LOCAL Income taxes	STATE AND LOCAL Corp. profits tax accru.	STATE AND LOCAL Surplus /deficit
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	bil. $
Year & Qtr.						
1987*	407.7	111.4	-150.2 P	162.6 R	27.1	44.1
1988:1*	413.3	117.6	-151.1 P	173.5	27.9	46.0
2	423.5 P	122.9 P	-148.9 P	177.4 P	28.9 P	47.1P
3	437.9	124.0	-145.8	180.3	30.8	50.6
4	446.8	127.1	-139.6	186.4	31.8	51.1
YEAR	430.4	122.9	-146.3	179.4	29.9	48.7
% change from '87	5.6	10.3	-2.6	10.3	10.1	10.4
1989:1	458.9	128.0	-134.3	189.5	32.9	53.1
2	464.3	129.8	-127.5	192.1	33.0	55.4
3	470.5	133.4	-121.2	198.8	33.7	56.3
4	477.8	136.2	-117.8	200.5	34.6	58.1
YEAR	467.9	131.8	-125.2	195.2	33.5	55.7
% change from '88	8.7	7.3	-14.5	8.8	12.4	14.4
1990:1	486.2	135.2	-113.0	20.9	35.1	60.1
2	493.7	137.1	-112.1	210.2	35.3	62.0
3	499.3	141.6	-111.5	219.6	37.2	62.9
4	511.4	145.3	-110.8	224.7	37.8	63.0
YEAR	497.6	139.8	-111.8	168.8	36.4	62.0
% change from '89	6.4	6.0	-10.7	-13.5	8.3	11.3

*Historical data. R = Revised. P = Preliminary.

1.60 INCOME

See Table 1.60 - page 23

1988
FORECAST
DATA

Percent Change
from
August 1988
Forecast

+ 5.14%	Corp. After Tax Earnings
+ 1.00%	Comp. of Employees
+ .18%	Personal Income
+ .02%	Average Weekly Earnings
- .09%	Personal Disp. Income
- 3.40%	Personal Savings

KEDI DATA FOR CORPORATE PROFITS HAS BEEN REVISED UPWARDS UNDERSCORING THE EXPECTED HEALTHY PACE OF THE BUSINESS SECTOR IN THE REST OF THIS YEAR AND IN 1989.

Personal Income rose in July to a seasonally adjusted rate of $4.071 trillion from a revised $4.046 trillion in June. Forecast data for Personal Income and Personal Disposable Income show a healthy growth while the main component of personal income, Wages and Salaries, shows modest gains only caused rather by new jobs than by wage increases. It is NOT expected that current labor shortages in many segments of the economy will lead to significant pay hikes, as it was usual in the past.

TABLE 1.60
INCOME

Quarterly data are seasonally adjusted at annual rates.

INDICATOR	Pers. income	Pers. disp. income	Comp. of empl.	Corp. after tax profits	Pers. saving	Avg. week earn.
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	$
Year & Qtr.						
1987*	3780.0	3209.7	2672.8	142.9	104.2	405.0
1988:1*	3951.4	3375.6	2790.6	149.4	149.9	410.8 R
2	4021.9 P	3421.0 P	2827.2 P	166.6 P	132.6 P	416.0 P
3	3903.6	3285.4	2906.1	167.3	138.5	420.1
4	3962.9	3329.7	2956.2	168.4	141.2	422.0
YEAR	3959.9	3352.9	2870.0	162.9	140.6	417.2
% change from '87	4.8	4.5	7.4	14.0	34.9	3.0
1989:1	4205.5	3557.1	2691.2	172.7	145.1	425.3
2	4249.8	3593.4	3021.3	173.5	142.8	428.1
3	4409.2	3739.9	3051.1	178.7	146.9	433.6
4	4481.0	3802.7	3094.3	184.4	149.8	436.9
YEAR	4336.4	3673.3	2964.5	177.3	146.2	431.0
% change from '88	9.5	9.6	3.3	8.8	4.0	3.3
1990:1	4384.9	3877.8	3150.2	189.7	151.2	438.6
2	4468.0	3764.1	3198.4	192.6	150.6	442.3
3	4778.4	4059.5	3238.9	198.2	154.3	447.1
4	4867.3	4131.2	3294.7	201.9	156.9	452.6
YEAR	4624.6	3958.1	3220.6	195.6	153.2	445.2
% change from '89	6.6	7.8	8.6	10.3	4.9	3.3

*Historical data. R = Revised. P = Preliminary.

1.70 MONEY AND CREDIT

See Table 17.0 - page 25

1988
FORECAST
DATA

Percent Change from August 1988 Forecast

+ .98%	Consumer Install. Credit
+ .52%	Time Deposits
+ .38%	Large Denom. Time Deposits
0.00%	Mortg. at savings inst'ns
- .14%	Comm. & Indust. Loans at Banks
- 1.78%	Consumer & Demand Deposits

Though the interest rate level is expected to stay at the current levels for the rest of the year, monetary aggregates, especially M1 will grow only marginally.

Slow growth of M1 is also predicted for 1989.

Forecast of credit aggregates shows a somewhat different picture, however. Data point to significant increases in all kinds of consumer credit for the rest of this year and in 1989, and fast increases in mortgage credit in 1989 due to the rebound in housing.

TABLE 1.70
MONEY & CREDIT

Data for "Currency and demand deposits, M1", and "Time deposits, adjusted, M2" are averages of daily figures; other data are end of period figures.

INDI-CATOR	Currency and demand deposits M1, s.a.	Time deposit adjust. M2, s.a.	Cons. instal. credit n.s.a. **	Comm. & indus. loans at banks s.a.	Large denom. time dep. s.a.	Mortg. at all holders ** n.s.a.
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	bil. $
Year & Qtr.						
1987*	744.0	2861.9	613.0	540.1	485.4	2908.1R
1988:1	760.4 R	2946.3 R	628.8 R	545.2 R	493.7	2950.0R
2	722.3 R	3003.2 R	645.6 P	547.8 P	499.7 P	2987.8P
3	788.4	3038.4	54.8	550.0	504.9	3041.6
4	792.7	3248.5	667.2	557.1	522.8	3043.2
YEAR	766.0	3059.1	667.2	557.1	522.8	3043.2
% change from '87	3.0	6.9	8.8	5.3	7.7	4.6
1989:1	800.1	3254.3	686.5	562.0	525.9	3121.7
2	813.0	3288.9	699.2	564.8	529.7	3200.4
3	824.3	3334.2	713.1	568.0	540.4	3284.0
4	830.1	3428.7	721.0	569.5	554.3	3308.1
YEAR	816.9	3326.5	696.1	569.8	552.3	3308.1
% change from '88	6.6	8.7	4.3	2.3	5.6	8.7
1990:1	835.1	3446.5	725.2	571.8	559.3	3400.2
2	844.9	3482.7	736.7	574.4	656.2	3448.4
3	854.6	3553.4	742.8	574.7	577.8	3509.5
4	868.7	3621.4	750.4	581.3	588.1	3528.9
YEAR	850.8	3526.0	750.4	581.3	588.1	3528.9
% change from '89	4.2	6.0	7.8	2.0	6.5	6.7

---

*Historical data. n.s.a: not seasonally adjusted.

s.a.: seasonally adjusted at annual rates.

R = Revised. P = Preliminary.

1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES

See Table 1.80 - page 27

NO FURTHER INCREASES OF INTEREST RATES INITIATED BY THE FEDERAL RESERVE ARE ANTICIPATED.

This view is supported by recently released findings of 12 Federal Reserve District Banks:

* Currently the fast growth of the economy is giving way to a somewhat slower expansion in general.

* There are few signs of slower growth ahead for the booming manufacturing segment.

* The picture on inflation is mixed: while prices of some raw materials continue climbing, there are no general signs of upward pressures on wages due to the low unemployment.

So, it looks like the economy is behaving in the way the Fed desires which may lead to allowing the interest rates to level off.

1988
FORECAST
DATA

Percent Change
from
August 1988
Forecast

+ .60%	Conv. Mortg. Rate
+ .51%	Aaa Corp. Bond
+ .16%	S & P's 500 Ave.
0.00%	20 Year Govt. Bond Yield
0.00%	Prime Rate
- .27%	Treas. Bills 2 mo. yield

TABLE 1.80

INTEREST RATES, YIELDS & SECURITIES PRICES

Quarterly averages of monthly figures.

INDICATOR	Treas. bills 3 mo. yield	Prime rate	Conv. mortg rate	Aaa corp. bond rate	30 yr. Govt. bonds yield	S & P's 500 Avg 1941-43 = 10
Unit	%	%	%	%	%	
Year & Qtr.						
1987*	5.82	8.21	8.94	9.38	8.59	286.83
1988:1*	5.76	8.59	9.24	9.56	8.63	259.61R
2	6.55 P	8.97 P	9.48 P	9.78 P	8.89 P	264.47P
3	6.69	9.84	9.89	10.12	9.02	275.38
4	6.77	10.00	10.14	10.10	8.94	280.22
YEAR	6.44	9.35	9.69	9.89	8.87	269.92
% change from '87	10.7	13.9	8.4	5.4	3.3	-5.9
1989:1	6.96	10.00	10.32	10.20	9.04	279.65
2	7.08	10.12	10.28	10.23	8.69	281.54
3	6.92	10.04	10.02	10.06	8.76	291.23
4	6.85	9.95	9.78	9.90	8.85	300.56
YEAR	6.95	10.03	10.10	10.10	8.83	288.25
% change from '88	7.9	7.2	4.3	2.1	-.4	6.8
1990:1	6.71	9.81	9.58	9.96	8.70	301.08
2	6.54	9.68	9.59	9.92	8.84	303.72
3	6.58	9.56	9.60	9.98	8.61	311.49
4	6.71	9.50	9.60	9.63	8.36	315.40
YEAR	6.63	9.64	9.59	9.87	8.63	307.92
% change from '89	-4.6	-3.9	-5.0	-2.2	-2.3	6.8

*Historical data. R = Revised. P = Preliminary.

2.0 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, comparisons of accuracy of Industrial Capacity Utilization in 1987:4 has been selected. Actual number is in the Federal Reserve Bulletin (Board of Governors of the Federal Reserve System, Washington, D.C.), April 1988, p. A-46. Forecast data are in The Journal of Business Forecasting Methods & Systems, Vol. 5, No. 4, pp. 36-42, Winter 1986/87.

TABLE 2.0

COMPARISONS OF ACCURACY OF PREDICTIONS
Industrial Capacity Utilization
Actual figure: 81.4

Forecaster	Date of Forecast	Forecast	Accuracy %
AmeriTrust, Cleveland	12/86	79.5	- 2.3
Fidelity Bank, Philadelphia	12/86	80.6	- 1.0
First National Bank of Chicago, Chicago	12/86	80.3	- 1.4
First Pennsylvania Bank, Philadelphia	12/86	81.2	- .2
Irving Trust, New York	12/86	80.0	- 1.7
LaSalle National Bank, Chicago	12/86	79.2	- 2.7
KEDI, Inc., Kent	12/86	80.1	- 1.6
Marine Midland Bank, New York	12/86	81.4	.0
Shawmut of Boston, Boston	12/86	80.0	- 1.7
Valley National Bank, Arizona	12/86	80.8	- .7
Metropolitan Life Ins. Co.	12/86	80.7	- .9
Prudential	12/86	82.5	+ 2.6
National City Bank, Ohio	12/86	80.6	- 1.0

3.00 HISTORICAL DATA SOURCES

For reader's convenience listed below are sources of historical data series for the forecasts appearing in the Survey. The first column of the following table refers to the table in this Survey, the second column to the name of forecast series, and the third column identifies the source of historical data. The sources are: **Survey of Current Business** referred to as SCB (monthly, U. S. Department of Commerce, Washington, D.C.), **Federal Reserve Bulletin,** FRB, (Board of Governors of the Federal Reserve System, Washington, D.C. monthly), **Index of Industrial Production,** G.12.3 Release, IIP, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly.)

TABLE 3.00

HISTORICAL DATA SOURCES

Table Number	Data Series	Source
1.11 Selected Indicators of Real Growth I.	Gross national product, 1982 $	SCB, Table 1.2
	Index of industrial production	IIP, p. 2.
	Unemployment rate	SCB, Blue pages
	Capacity utilization rate	FRB, Table 2.11
	Private housing starts	SCB, Blue pages
	Car sales	SCB, Blue pages
1.12 Selected Indicators of Real Growth II.	Personal Cons. expend: Durables,	SCB, Table 1.1
	Nondurables	SCB, Table 1.1
	Services	SCB, Table 1.1
	Retail sales: Total	SCB, Blue pages
	Durables	SCB, Blue pages
	Nondurables	SCB, Blue pages
1.12 Real GNP	Gross national product, 1982 $	SCB, Table 1.2
	Personal consumpt. expenditures	SCB, Table 1.2
	Gross private dom. investment	SCB, Table 1.2
	Net exports	SCB, Table 1.2
	Federal purchases	SCB, Table 1.2
	State and local purchases	SCB, Table 1.2
1.21 Prices	Consumer price index	SCB, Blue pages
	Producer price index	SCB, Blue pages
	Implicit price deflators: GNP	SCB, Table 7.1
	Personal consumpt. expenditures	SCB, Table 7.1
	Federal purchases	SCB, Table 7.1
	State and local purchases	SCB, Table 7.1
1.22 Nominal GNP	Gross national product	SCB, Table 1.1
	Personal consumpt. expenditures	SCB, Table 1.1
	Gross private dom. investment	SCB, Table 1.1
	Net exports	SCB, Table 1.1
	Federal purchases	SCB, Table 1.1
	State and local purchases	SCB, Table 1.1

(Table 3.00 continues on the following page.)

TABLE 3.00

HISTORICAL DATA SOURCES (CONTINUED)

Table Number	Data Series	Source
1.30 Employment and Labor	Population	SCB, Blue pages
	Civilian labor force	SCB, Blue pages
	Employment	SCB, Blue pages
	Agriculture	SCB, Blue pages
	Non-agriculture	SCB, Blue pages
	Unemployment rate	SCB, Blue pages
1.41 Housing	Single-family housing starts	SCB, Blue pages
	Multifamily housing starts	SCB, Blue pages
	Mobile home shipments	SCB, Blue pages
	Permits authorized	SCB, Blue pages
	1-family unit price, new	FRB, Table 2.14
	1-family unit price, existing	FRB, Table 2.14
1.42 Autos	Passenger cars: Total sales	SCB, Blue pages
	Domestic	SCB, Blue pages
	Imported	SCB, Blue pages
	Dealers inventories	SCB, Blue pages
	Factory shipments	SCB, Blue pages
	Light-duty truck sales	SCB, Blue pages
1.50 Federal State & Local Budgets	Federal govt: Income taxes	SCB, Table 3.2
	Corporate profit tax accruals	SCB, Table 3.2
	Surplus/Deficit	SCB, Table 3.2
	State & local govt:Income taxes	SCG, Table 3.3
	Corporate profit tax accruals	SCG, Table 3.3
	Surplus/Deficit	SCB, Table 3.3
1.60 Income	Personal income	SCB, Table 2.1
	Personal disposable income	SCB, Table 2.1
	Compensation of employees	SCB, Table 1.11
	Corporate after tax profits	SCB, Table 1.11
	Personal saving	SCB, Table 2.1
	Average weekly earnings	SCB, Blue pages
1.70 Money and Credit	Currency and demand deposits, M1	FRB, Table 1.21
	Time deposits, adjusted, M2	FRB, Table 1.21
	Consumer installment credit	FRB, Table 1.55
	Commercial and industrial loans	FRB, Table 1.23
	Large denomination time deposits	FRB, Table 1.21
	Mortgages at S&L Associations	FRB, Table 1.54
1.80 Interest Rates, Yields, & Securities Prices	Treasury bills (3 mo) yield	FRB, Table 1.35
	Prime rate	FRB, Table 1.33
	Conventional mortgage rate	FRB, Table 1.53
	Aaa corporate bonds rate	FRB, Table 1.35
	20 years government bonds yield	FRB, Table 1.35
	Standard & Poor's 500 average	FRB, Table 1.36

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October 1, 1988

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SOURCES:

U.S.Department of Commerce third estimate of 1988:2, National Income and Product data, September 20, 1988.

Board of Governors of the Federal Reserve System release of the Index of Industrial Production, September 1988.

The latest available data on prices, employment, industrial and financial developments.

0.00 INTRODUCTION

0.01 EXECUTIVE SUMMARY

HIGHLIGHTS

Real Growth

Signs of slowing down are already here, but forecast data for 1989 do not point to any downturn or recession.

Prices

Recent data confirm that worries of some economists have not materialized in their predictions of inflation going up.

Employment & Labor

The unemployment rate is predicted to hover around 5.4% for 1989 and following years.

Housing

Forecast of housing starts calls for flat performance the rest of this year with gradual improvements throughout 1989.

Automobiles

The nine domestic automakers boosted plans for fourth quarter production of cars or 10.6% above output in 1987:4.

Budgets

Data on actual Federal receipts and outlays indicate that the Federal deficit reduction process is working.

Income

Corporate after-tax profits are expected at near-record levels in 1989--almost 10% increase compared to estimates for this year.

Money & Credit

Forecast of money supply, M1, shows moderate growth through the rest of this year and in the following two years as well.

Interest Rates, Yields & Securities Prices

The economy is slowing down at bit which certainly makes the Federal Reserve Happy.

0.02 ASSUMPTIONS

		Last Update
1.	In 1988, the weighted price of oil will increase slightly as compared to 1987. It will continue increasing in the 1989-1990 period.	April 1986
2.	A longer-lasting relaxation in monetary and credit policies will last for the most of 1988. More tightening is expected in 1989.	February 1988
3.	In 1988 below average and in 1989 good crops in most of the main producing countries are anticipated.	June 1988
4.	Foreign trade with China will expand in 1988 and following years.	May 1987
5.	Average rates of growth in 1985-1990 in major industrial countries are anticipated: West Germany 3.0%; Italy 2.1% Great Britian 2.1%; France 2.0%; Japan 3.1%; Canada 2.6%	September 1987
6.	No drastic changes in international relationships are anticipated.	Permanent Assumption

0.03 FORECAST HIGHLIGHTS

*	Table 0.00 on page 3 shows forecast data of selected indicators of the October 1988 KEDI forecast.	
*	In 1988 solid growth is expected. It will slow down a bit in the first half of 1989.	January 1987
*	The upward trend will continue throughout 1990-1991.	January 1987
*	Forecast data for 1988-1991 do not point to to recession or major downturn.	January 1987
*	In 1988 interest rates will remain, in average, at low levels throughout most of the year. Some increases are anticipated in second half 1988.	March 1988
*	Federal budget deficits will keep declining in in 1988 and the following years.	January 1987
*	The 1987 export-import gap will start closing to a more acceptable level.	January 1987

TABLE 0.00

KEDI FORECAST HIGHLIGHTS

Data for 1988, 1989 and 1990 are on pages indicated below.

Indicator	Unit	1987	1991	1992	1993
Gross national	bil. 82$	3847.0	4305.9	4413.5	4528.2
product, p. 5	% change	3.1	2.9	2.5	2.6
Index of indust.	1977=100	129.8	149.1	154.0	159.2
prod., p. 5	% change	3.8	3.2	3.3	3.4
Capacity	%	82.6	82.9	81.6	81.2
utiliz., p. 5	% change	3.8	.2	-1.6	-.5
Unemployment	%	6.2	5.6	5.5	5.4
rate, p. 5	% change	-12.0	.6	-1.2	-1.1
Private housing	mil.units	1.6	2.0	1.9	2.0
starts, p. 5	% change	-5.8	4.5	-2.0	3.5
Car sales,	mil.units	10.3	11.5	11.6	12.0
p. 5	% change	-10.7	3.9	1.0	4.0
Implicit GNP	1982=100	117.7	136.3	141.2	146.4
price def.,p.11	% change	3.6	3.5	3.6	3.7
Consumer Price	1967=100	113.7	133.8	138.1	143.0
Index, p. 11	% change	3.7	3.9	3.2	3.6
Prod.Price Index	1967=100	105.5	125.1	130.8	135.7
(fin.goods),p.11	% change	2.3	4.5	4.5	3.8
Federal Deficit	bil. $	-151.4	-99.7	-83.1	-67.8
p. 21	% change	-27.4	-12.6	-16.7	-18.4
Personal Income	bil. $	3780.0	5111.6	5464.3	5868.7
p. 23	% change	6.1	7.8	6.9	7.4
Prime Rate	%	8.2	9.3	10.0	10.8
p. 27	% change	-1.5	-3.0	7.5	8.0
Mortgage Rate	%	9.2	9.5	9.3	9.4
p. 27	% change	-6.8	5.8	-2.7	1.8
Currency+demand	bil. $	744.0	884.4	942.8	1006.9
deposits , p. 25	% change	11.5	5.7	6.6	6.8
Commercial+ind.	bil. $	540.1	599.0	616.2	3674.0
loans, p. 25	% change	5.1	3.0	2.9	2.1
Raw steel	mil.sh.tons	89.2	93.7	96.2	95.1
production	% change	5.4	.8	-1.1	-.1
Electric power	mil.kw-hr	2572	3032.4	3144.6	3270.4
production	% change	4.7	3.4	3.7	4.0
Bituminous coal	mil.sh.tons	913	986	973.3	984.1
production	% change	2.5	1.1	1.3	1.5
Crude oil	avg. daily bbl.	3033	3142	3176.9	3218.2
output	% change	-.3	2.0	1.1	1.3
Retail sales	bil. $	1510.6	1989.3	2126.5	2275.4
p. 7	% change	5.8	7.1	6.9	7.0

Numbers in "% change" rows show percent changes over the previous year.

1.10 REAL GROWTH, CONSUMER SPENDING, AND RETAIL SALES
1.11 REAL GROWTH

See Table 1.11
Page 5

SIGNS OF SLOWING DOWN ARE ALREADY HERE, BUT FORECAST DATA FOR 1989 DO NOT POINT TO ANY DOWNTURN OR RECESSION.

Data point to a continuous robust growth, though slower than this year: 3.1% real growth in 1988; 2.9% growth in 1989.

* Industrial Production for September remained unchanged from August.

* Factory orders rebounded 3.1% in August and further small increases are expected to be moderate.

* Though The University of Michigan Index of Consumer Sentiments dropped for September, it remained still fairly above the level that may signal a downturn.

* Recently released Dun & Bradstreet survey of 1500 plant managers points out that the majority of managers expect a slowdown in orders in 1988:4, but stable production and demand in the long-run.

1988
FORECAST
DATA

Percent Change
from
September 1988
Forecast

+ 1.80%	Private Housing Starts
+ .73%	Capacity Util.
+ .15%	Index Indus. Prod.
- .07%	GNP
- .46%	Autos
- 1.44%	Unemployment

TABLE 1.11
SELECTED INDICATORS I.
Quarterly data are seasonally adjusted at annual rates.

INDICATOR	GNP	Index of ind. prod.	Unem- ploy ment	Capacity util'n rate	Private housing starts	Auto sales
Unit	$82 bil.	1977=100	%	%	mil.	mil.
Year & Qtr.						
1987*	3847.0	129.8	6.20	82.6	1.621	10.3
1988:1*	3956.1	134.5	5.73	82.7 R	1.477	10.7
2*	3985.2 P	136.0 R	5.43	83.2 R	1.478	10.5 P
3	3940.5	138.2	5.37	83.5	1.566	10.8
4	3971.1	138.5	5.39	83.4	1.587	11.0
YEAR	3963.2	136.8	5.48	83.2	1.527	10.8
% change from '87	3.0	5.4	-11.6	.7	-5.8	4.4
1989:1	4009.5	139.2	5.45	83.1	1.585	10.2
2	4042.0	139.9	5.51	83.0	1.681	10.8
3	4078.1	141.0	5.48	82.9	1.812	11.4
4	4115.1	142.4	5.44	82.7	1.772	10.9
YEAR	4061.2	140.6	5.47	82.9	1.712	10.8
% change from '88	2.5	2.8	-.2	-.3	12.1	.7
1990:1	4136.4	143.0	5.51	82.6	1.678	10.8
2	4177.0	143.8	5.57	82.7	1.869	10.9
3	4201.1	145.0	5.53	82.9	2.034	11.4
4	4223.5	146.0	5.50	82.9	1.903	11.0
YEAR	4184.5	144.4	5.53	82.8	1.871	11.0
% change from '89	3.0	2.7	1.1	-.2	9.3	1.8

*Historical data.
R = Revised. P = Preliminary.

1.12 CONSUMER SPENDING AND RETAIL SALES

See Table 1.12 - page 7

1988
FORECAST
DATA

Percent Change
from
September 1988
Forecast

+	.26%	Pers. Cons. Exp. Services
+	.08%	Pers. Cons. Exp. Durables
-	.03%	Retail Sales Nondurable
-	.08%	Retail Sales Total
-	.16%	Retail Sales Durable
-	.23%	Pers. Cons. Exp. Nondurable

FORECAST OF RETAIL SALES FOR THE BALANCE OF THIS YEAR REMAINS UNCHANGED: SIGNIFICANT IMPROVEMENT IN OCTOBER AND NOVEMBER COMPARED TO FLAT SALES IN AUGUST AND SEPTEMBER, AND STRONG INCREASES IN PRE-CHRISTMAS AND CHRISTMAS SALES.

1989 is shown as a good year for retailers: moderate but persistent improvements in sales of durables, notably motor vehicles and parts, building materials and home furnishings, rebound in apparel, and strength in sales of food and kindred products.

Slight increases are shown in gasoline and products, hardware and home electronics are expected to moderate the overall increase in retail sales in the year.

TABLE 1.12

CONSUMER SPENDING AND RETAIL SALES

Quarterly data are seasonally adjusted at annual rates.

	*--Personal Cons. Expend.-**			------Retail Sales-------*		
INDICATOR	Durables	Nondurables	Services	Total	Durables	Nondurables
Unit	bil.$	bil.$	bil.$	bil.$	bil.$	bil.$
Year & Qtr.						
1987*	421.9	997.9	1592.3	1510.6	559.1	951.5
1988:1*	437.8	1016.2	1674.1	1565.5	596.1	969.1
2*	449.6 R	1036.5 R	1708.2 R	1621.7 R	596.7 R	1025.0 R
3	461.3	1050.0	1631.6	1639.0	618.0	1021.0
4	470.3	1068.1	1657.9	1680.1	628.1	1052.0
YEAR	454.8	1042.7	1667.9	1626.6	609.7	1016.8
% change from '87	7.8	4.5	4.8	7.7	9.1	6.9
1989:1	473.0	1080.2	1707.3	1697.2	618.4	1078.8
2	482.2	1103.7	1751.2	1724.0	637.0	1087.0
3	492.4	1128.8	1870.0	1761.2	665.1	1096.1
4	498.1	1140.9	1934.5	1788.1	680.7	1107.4
YEAR	486.4	1113.4	1815.8	1742.6	650.3	1092.3
% change from '88	7.0	6.8	8.9	7.1	6.7	7.4
1990:1	503.5	1150.6	1961.7	1811.1	695.0	1116.1
2	512.9	1163.7	2056.5	1840.2	712.0	1128.2
3	525.9	1179.1	2103.9	1868.1	727.4	1140.7
4	537.4	1188.3	2154.1	1910.2	740.3	1169.9
YEAR	519.9	1170.4	2069.0	1857.4	718.7	1138.7
% change from '89	6.9	5.1	13.9	6.6	10.5	4.2

* Historical data. R = Revised. P = Preliminary.

1.13 REAL GNP

See Table 1.13
Page 9

IN THE THIRD REVISION OF GNP FOR 1988:2, THE GNP FIGURE HAS BEEN REVISED DOWNWARD BY $3 BIL--A SMALL CHANGE NOT AFFECTING SIGNIFICANTLY THE PICTURE OF THE OVERALL GROWTH OF THE ECONOMY.

The figure for Net Exports has been increased from $-90.1 bil. to $-92.66 bil. KEDI forecast data for the rest of this year and for 1989-1990 show that the US trade gap will continue declining, in real terms, throughout the entire period, though not as fast as it was in the $16 bil. drop from the first quarter of this year.

Erratum: In the September issue of KES, p. 9 col. 6 "Net Exports 1990:3, the figure 69.1 instead of -69.1 was printed. The 1990 year total of "Net Exports" is -66.9 instead of -32.4, and the 1990 % change over 1989 is -13.1 instead of 1.0. KEDI sincerely regrets the error.

1988 FORECAST DATA

Percent Change from September 1988 Forecast

+ 1.56%	Net Exports
+ .23%	Federal Govt. Purch.
+ .05%	Pers. Cons. Expend.
+ .23%	State Local Purch.
- .07%	GNP
- .42%	Gross Private Dom. Inv.

TABLE 1.13
REAL GNP
Quarterly data are seasonally adjusted at annual rates.

INDICATOR	*-----------Gross National Product---------------*					
	Total	Pers. cons. expend.	Gross pvt.dom. investm.	Net exports	Fed. govt. purch.	State local purch.
Unit	$82 bil.	$82 bil.	$82 bil.	$82 bil.	$82 bil.	$82 bil.
Year & Qtr.						
1987*	3847.0	2521.0	674.8	-128.9	339.0	441.2
1988:1*	3956.1	2559.8	728.9	-109.0	327.8	448.7
2*	3985.2 R	2579.0 R	715.1 R	-92.6 R	331.6 R	452.2 R
3	3940.5	2524.4	720.1	-89.1	331.9	453.2
4	3971.1	2544.8	724.5	-86.7	332.1	456.4
YEAR	3963.2	2551.9	722.1	-94.3	330.9	452.6
% change from '87	3.0	1.2	7.0	-26.8	-2.4	2.6
1989:1	4009.5	2571.4	729.3	-83.4	333.9	458.3
2	4042.0	2599.0	732.4	-79.6	329.9	460.3
3	4078.1	2626.9	736.8	-76.9	329.2	462.1
4	4115.1	2656.9	736.9	-73.5	330.1	464.7
YEAR	4061.2	2613.6	733.8	-78.3	330.8	461.4
% change from '88	2.5	2.4	1.6	-17.0	-.0	1.9
1990:1	4136.4	2643.1	738.3	-70.3	333.4	466.2
2	4177.0	2701.2	742.3	-69.1	335.2	467.4
3	4201.1	2714.8	744.8	-65.1	337.3	469.3
4	4223.5	2728.4	746.9	-63.2	339.3	472.1
YEAR	4184.5	2696.9	743.1	-66.9	336.3	468.8
% change from '89	3.0	3.2	1.3	-14.6	1.7	1.6

*Historical data.
R = Revised. P = Preliminary.

1.20 PRICES AND NOMINAL GNP

1.21 PRICES

See Tables 1.21 - page 11

1988
FORECAST
DATA

Percent Change
from
September 1988
Forecast

+ 1.76%	Pers. Cons. Expend.
0.00%	Producer Price Index
- .06%	Consumer Price Index
- .13%	Federal Govt. Purch.
- .17%	State Local Purch.
- .59%	GNP

RECENT DATA CONFIRM THAT WORRIES OF SOME ECONOMISTS HAVE NOT MATERIALIZED IN THEIR PREDICTIONS OF INFLATION DRIVEN BY:

- High capacity utilization
- Wage increases
- Increases in prices of imported commodities
- Increases of prices of food

1. High capacity utilization in some manufacturing industries has not resulted in inflationary price increases of their products.

2. Wage inflation has been moderate, this year around 3%, despite the strong job market.

3. Prices of imported commodities have been rising at a slow pace, and

4. Main increases in prices of food are over, as the majority of economists agree.

Forecast data on producer prices and consumer prices indicate that moderate pace of prices will continue throughout 1989 without any abrupt upward moves.

TABLE 1.21
PRICES
Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

	---Indexes--		*-------Price deflators--------*			
INDICATOR	Cons. price index n.s.a.**	Prod. price index n.s.a.**	Gross Nat'l Prod.	Pers. cons. expend.	Fed. govt. purch.	State local purch.
Unit	1982-4= 100	1982= 100	1982= 100	1982= 100	1982= 100	1982= 100
Year & Qtr.						
1987*	113.6	105.4	117.7	119.5	112.7	123.0
1988:1*	116.1	106.1	119.4	122.2	115.2	126.5
2*	117.4 R	108.2 R	121.0 R	123.9 R	115.3 R	128.1 R
3	118.8	109.1	122.3	124.5	116.7	130.2
4	119.8	111.8	123.6	125.6	117.0	131.1
YEAR	118.0	108.8	121.6	124.0	116.0	129.0
% change from '87	3.9	3.2	3.3	3.8	3.0	4.9
1989:1	121.7	113.0	124.0	126.8	118.1	132.0
2	122.5	114.2	124.9	128.4	119.8	133.0
3	124.1	115.5	127.0	132.9	121.0	134.8
4	125.7	116.2	128.5	134.5	121.8	136.6
YEAR	123.5	114.7	126.1	130.7	120.2	134.1
% change from '88	4.6	5.4	3.7	5.3	3.6	4.0
1990:1	127.0	117.7	130.1	136.8	122.6	137.6
2	128.0	118.8	131.0	138.2	123.5	138.4
3	129.3	120.2	132.1	140.3	125.0	139.4
4	130.8	122.3	133.5	142.2	127.1	141.6
YEAR	128.8	119.8	131.7	139.4	124.5	139.2
% change from '89	4.3	4.4	4.4	6.7	3.6	3.8

*Historical data. R = Revised. P = Preliminary.
**CPI: All Urban Consumers; PPI: Finished Goods.

1.22 NOMINAL GNP

See Table 1.22 - page 13

THE THIRD AND FINAL REVISION OF INCOME AND PRODUCT DATA FOR 1988:2 DID NOT RESULT IN ANY SIGNIFICANT CHANGES WHEN COMPARED TO THE SECOND REVISION.

Most data have been increased slightly due to upward revisions in price deflators. Data for net exports has been revised downward by approximately $2 bil. showing the foreign trade gap higher than previously estimated.

Forecast data for foreign trade do not indicate any further big declines: data show slow but persistent quarter-to-quarter declines throughout 1989 and stabilizing at around $-73 bil. in 1990.

1988
FORECAST
DATA

Percent Change
from
September 1988
Forecast

+ 1.81%	Pers. Cons. Expend.
+ .11%	Net Exports
+ .06%	Federal Govt. Purch.
- .10%	Gross Private Dom. Inv.
- .12%	State Local Purch.
- .64%	GNP

TABLE 1.22
NOMINAL GNP

Quarterly data are seasonally adjusted at annual rates.

	-----------Gross National Product---------------					
INDICATOR	Total	Pers. cons. expend.	Gross pvt. dom invest.	Net exports	Fed. govt. purch.	State local purch.
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	bil. $
Year & Qtr.						
1987*	4526.7	3012.1	712.9	-123.5	382.0	542.8
1988:1*	4724.5	3128.1	763.4	-112.1	377.7	567.5
2*	4823.8 R	3194.6 R	758.1 R	-90.4 R	382.2 R	579.4
3	4819.2	3142.9	760.8	-86.8	387.3	590.1
4	4908.3	3196.3	761.2	-85.1	388.6	598.3
YEAR	4818.3	3165.7	760.9	-93.6	383.9	583.8
% change from '87	6.4	5.1	6.7	-24.2	.5	7.6
1989:1	4971.8	3260.5	763.7	-86.0	394.3	605.0
2	5048.5	3337.1	765.5	-84.5	395.2	612.2
3	5179.2	3491.2	770.2	-81.0	398.3	622.9
4	5287.9	3573.5	770.9	-79.6	402.1	634.8
YEAR	5121.8	3415.6	767.6	-82.8	397.5	618.7
% change from '88	6.3	7.9	.9	-11.6	3.5	6.0
1990:1	5381.5	3615.8	774.1	-73.5	408.7	641.5
2	5471.9	3733.1	777.6	-74.8	414.0	646.9
3	5549.7	3808.9	780.1	-72.4	421.6	654.2
4	5638.4	3879.8	783.0	-70.9	431.3	668.5
YEAR	5510.3	3759.4	778.7	-72.9	418.9	652.8
% change from '89	7.6	10.1	1.4	-11.9	5.4	5.5

*Historical data. R = Revised. P = Preliminary.

1.30 EMPLOYMENT AND LABOR

See Table 1.30 - page 15

1988
FORECAST
DATA

Percent Change
from
September 1988
Forecast

+ .02%	Population
+ 0.00%	Agriculture
- .20%	Total Employed
- .20%	Non-Agriculture
- .35%	Civilian Labor Force
- 1.44%	Unemployment rate

THE UNEMPLOYMENT RATE IS PREDICTED TO HOVER AROUND 5.4% FOR 1989 AND FOLLOWING YEARS. FORECAST DATA POINT TO TWO MAIN FACTORS THAT ARE EXPECTED TO KEEP THE UNEMPLOYMENT RATE AT LOW LEVELS.

First, the continuous growth of the economy will keep the demand for labor strong, and second, the growth of the labor force is expected to slow down due to smaller inflow of new job seekers and larger outflow of persons to retirement.

For both forecast years, the ratio 9:10 is predicted to remain unchanged: out of 10 new jobs, 9 in service-oriented industries and 1 in goods-producing industries.

TABLE 1.30
EMPLOYMENT & LABOR

Quarterly data are seasonally adjusted at annual rates.

			-------Employment-------			
INDICATOR	Population	Civil. labor force	Total	Agricult.	Non-agric.	Unemployment rate
Unit	mil.	mil.	mil.	mil.	mil.	%
Year & Qtr.						
1987*	244.7	119.9	113.4	3.2	109.2	6.20
1988:1*	247.9	121.1	114.2	3.2	111.0	5.73
2*	249.6	121.3 R	114.9	3.2	111.7	5.43
3	250.4	121.8	115.3	3.2	112.1	5.37
4	251.5	122.5	115.9	3.2	112.7	5.39
YEAR	249.8	121.7	115.0	3.2	111.8	5.48
% change from '87	2.1	1.5	1.4	0.0	2.4	-11.61
1989:1	253.9	123.0	116.3	3.2	113.1	5.45
2	254.3	123.7	116.9	3.2	113.7	5.51
3	255.1	124.6	117.8	3.2	114.6	5.48
4	256.0	125.3	118.5	3.2	115.3	5.44
YEAR	254.8	124.2	117.4	3.2	114.2	5.47
% change from '88	2.0	2.0	2.0	0.0	2.1	-.18
1990:1	257.4	126.0	119.1	3.2	115.9	5.51
2	258.9	126.7	119.6	3.2	116.4	5.57
3	260.2	127.5	120.4	3.2	117.2	5.53
4	261.8	128.0	121.0	3.2	117.8	5.50
YEAR	259.6	127.0	120.0	3.2	116.8	5.53
% change from '89	1.9	2.3	2.3	0.0	2.3	1.05

*Historical data. R = Revised. P = Preliminary.

1.41 HOUSING

See Table 1.41 - Page 17

1988
FORECAST
DATA

Percent Change
from
September 1988
Forecast

- .23%	Multiple Family Housing Starts
- .47%	Single Family Housing Starts
- .77%	1-Family Unit price Existing
- .88%	Permits Issued
- 1.19%	1-Family Unit price New
- 2.40%	Mobile Home Shipments

FORECAST OF HOUSING STARTS CALLS FOR FLAT PERFORMANCE THE REST OF THIS YEAR WITH GRADUAL IMPROVEMENTS THROUGHOUT 1989.

In the last three months, June, July, and August, the number of housing starts hovered around 1.45 mil. units and it is expected that the following months will not show a significant change of that pace.

The August 3.1% rise in building permit is not considered here as indicativwe of the future since it may fall significantly in September.

Forecast data for housing starts in 1989 call for an improvement up to 1.6 mil. units, compared to the expected 1.45 mil. units this year.

TABLE 1.41
HOUSING

Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

INDICATOR	Single family housing starts	Multi-family housing starts	Mobile home ship-ments	Permits author-ized	1-Fam. unit price new**	1-Fam. unit price exist**
Unit	mil.	mil.	mil.	mil.	tho. $	tho. $
Year & Qtr.						
1987*	1.146	.474	.233	1.535	127.9	106.2
1988:1*	1.097 R	.380 R	.207	1.384	138.4	109.9
2*	1.062 R	.415 R	.220 P	1.459 P	136.8 P	111.9 P
3	1.117	.449	.231	1.502	138.9	113.0
4	1.127	.460	.236	1.511	140.0	114.9
YEAR	1.101	.426	.224	1.464	138.5	112.4
% change from '87	-3.9	-10.1	-4.1	-4.6	8.3	5.9
1989:1	1.132	.453	.231	1.418	142.4	116.1
2	1.180	.501	.242	1.600	145.3	118.7
3	1.260	.552	.252	1.683	154.1	122.5
4	1.242	.530	.261	1.702	156.8	125.6
YEAR	1.204	.509	.246	1.601	149.7	120.7
% change from '88	9.3	19.5	10.3	9.3	8.0	7.4
1990:1	1.186	.492	.238	1.514	157.5	127.8
2	1.299	.570	.251	1.639	159.7	130.4
3	1.430	.604	.290	1.769	165.3	133.7
4	1.311	.592	.281	1.712	167.2	135.2
YEAR	1.306	.565	.265	1.659	162.4	131.8
% change from '89	8.6	10.9	7.5	3.6	8.5	9.2

*Historical data. R = Revised. P = Preliminary.
**Average. Not seasonally adjusted.

1.42 AUTOMOBILES

See Table 1.42 - page 19

1988 FORECAST DATA

Percent Change from September 1988 Forecast

0.00%	Imported Car Sales
0.00%	Dealer Inventory
0.00%	Total Light Truck Sales
- .32%	Shipments
- .46%	Total Car Sales
- .65%	Domestic Cars Total

THE NINE DOMESTIC AUTOMAKERS BOOSTED PLANS FOR FOURTH QUARTER PRODUCTION OF CARS OR 10.6% ABOVE THE OUTPUT IN 1987:4. FORECASTS OF CAR PRODUCTION AND SALES ARE OPTIMISTIC.

In 1989 strong demand for cars is expected to continue despite anticipated less generous incentives compared to those of last year and this year.

Forecast data for light-duty trucks, vans and recreational vehicles show 1989 as a record year with more than 4.5 mil. vehicles sold.

TABLE 1.42
AUTOMOBILES

Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

INDICATOR	Total car sales	Car sales dom.	Car sales imp.	Dealer car inventory n.s.a. **	Factory car shipments	Total light truck sales
Unit	mil.	mil.	mil.	mil.	mil.	mil.
Year & Qtr.						
1987*	10.3	7.1	3.2	1.7	4.1	3.8
1988:1*	10.7	7.6	3.1	1.6	7.5	4.1
2*	10.5 R	7.5 R	3.0 R	1.6	7.6	4.2 R
3	10.8	7.7	3.1	1.8	7.8	4.2
4	11.0	7.8	3.2	1.6	7.8	3.9
YEAR	10.8	7.7	3.2	1.6	7.7	4.1
% change from '87	4.4	7.7	0.0	-5.9	87.2	7.9
1989:1	10.2	7.0	3.2	1.7	7.0	4.0
2	10.8	7.6	3.2	1.8	7.6	4.5
3	11.4	8.1	3.3	1.8	8.3	4.9
4	10.9	7.7	3.2	1.7	7.7	4.2
YEAR	10.8	7.6	3.2	1.7	7.7	4.4
% change from '88	.7	-.1	.8	6.2	-.3	7.3
1990:1	10.8	7.6	3.2	1.7	7.9	4.4
2	10.9	7.6	3.3	1.8	8.0	4.7
3	11.4	8.0	3.4	1.8	8.4	4.8
4	11.0	7.7	3.3	1.8	8.0	4.7
YEAR	11.0	7.7	3.3	1.8	8.1	4.7
% change from '89	1.8	-.5	2.3	5.9	5.6	5.7

*Historical data. R = Revised. P = Preliminary.
**End of period data.

1.50 BUDGETS

See Table 1.50 - page 21

DATA ON ACTUAL FEDERAL RECEIPTS AND OUTLAYS INDICATE THAT THE FEDERAL DEFICIT REDUCTION PROCESS IS WORKING, THOUGH NOT AS FAST AS ANTICIPATED BY SOME FORECASTERS.

Difference Between Actual Federal Receipts and Outlays

	1H	2H
1987	-54.9	-100.4
1988	-36.9	-98.7*
1989	-30.2*	-69.7*

Actual and forecast data of difference point to significant reductions in the deficit. However, the target of a balanced Federal budget in 1992 appears not too realistic

* forecast

1H = first half of calendar year
2H = second half of calendar year

1988 FORECAST DATA

Percent Change from September 1988 Forecast

+ .10%	Federal Income Tax
- .04%	State Income Tax
- .08%	Corporate Profit Tax Accrued
- .10%	State Surplus/ Deficit
- .15%	Federal Surplus/ Deficit Tax
- .17%	State Local Corp. Tax Accrued

TABLE 1.50
FEDERAL, STATE AND LOCAL BUDGETS

Quarterly data are seasonally adjusted at annual rates.

	-----FEDERAL----------			*---STATE AND LOCAL----*		
INDICATOR	Income taxes	Corp. profits tax accru.	Surplus /deficit	Income taxes	Corp. profits tax accru.	Surplus /deficit
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	bil. $
Year & Qtr.						
1987*	407.7	111.4	-150.2	162.6	27.1	44.1
1988:1*	413.3	117.6	-151.1	173.5	27.9	46.0
2	423.8 R	122.7 R	-149.8 R	177.1 R	28.8 R	47.1 R
3	438.1	123.9	-142.5	180.3	30.9	50.5
4	448.2	127.0	-140.9	186.4	31.8	51.0
YEAR	430.9	122.8	-146.1	179.3	29.9	48.6
% change from '87	5.7	10.2	-2.7	10.3	10.1	10.3
1989:1	460.3	128.0	-137.1	189.9	32.8	53.1
2	465.2	129.7	-129.2	193.2	33.0	54.5
3	470.7	132.0	-124.3	199.8	33.5	55.3
4	478.2	136.3	-120.8	202.4	34.6	57.1
YEAR	468.6	131.5	-127.8	196.3	33.5	55.0
% change from '88	8.8	7.1	-12.5	9.5	12.1	13.1
1990:1	488.5	135.0	-117.1	210.6	35.0	60.0
2	495.1	137.1	-115.1	213.1	35.3	62.0
3	502.6	140.6	-112.4	219.0	37.1	62.8
4	514.3	145.3	-111.8	224.1	37.8	63.0
YEAR	500.1	139.5	-114.1	216.7	36.3	62.0
% change from '89	6.7	6.1	-10.8	10.4	8.4	12.6

*Historical data. R = Revised. P = Preliminary.

1.60 INCOME

See Table 1.60 - page 23

1988
FORECAST
DATA

Percent Change
from
September 1988
Forecast

+ .01%	Average Weekly Earnings
+ .31%	Comp. of Employees
- .05%	Personal Income
- .07%	Personal Disp. Income
- 2.38%	Corp. After Tax Profit
- 3.24%	Personal Savings

CORPORATE AFTER-TAX PROFITS ARE EXPECTED AT NEAR-RECORD LEVELS IN 1989--ALMOST 10% INCREASE COMPARED TO THE ESTIMATED OUTCOME OF THIS YEAR.

Signifcant gains are predicted for steel, ferrous and nonferrous metals, metalworking machinery, aerospace, electrical and non-electrical machinery, and instruments in durable manufacturing, and for food and kindred products, printing and publishing, plastics, most of chemicals and products, apparel and paper and products, in nondurable manufacturing.

Good, but not spectacular outcomes are predicted for stone, clay, and glass products, coal and pertroleum products, textile mill products, farm and construction machinery, lumber and products, and leather and leather products. Forecast data for personal income and components show regular, moderate gains in both forecast years.

TABLE 1.60
INCOME

Quarterly data are seasonally adjusted at annual rates.

INDICATOR	Pers. income	Pers. disp. income	Comp. of empl.	Corp. after tax profits	Pers. saving	Avg. week earn.
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	$
Year & Qtr.						
1987*	3780.0	3209.7	2672.8	142.9	104.2	405.0
1988:1*	3951.4	3375.6	2790.6	149.4	149.9	410.8
2*	4022.4 R	3421.5 R	2823.1 P	162.7 R	127.8 R	416.1 P
3	4193.1	3574.7	2951.0	162.0	131.8	420.0
4	4265.6	3631.0	2951.0	162.0	134.7	422.0
YEAR	4108.1	3500.7	2878.9	159.0	136.1	417.2
% change from '87	8.6	9.1	7.7	11.3	30.6	3.0
1989:1	4356.5	3706.3	2696.2	172.0	140.2	425.3
2	4241.4	3783.0	3032.3	173.1	138.7	428.4
3	4512.3	3841.8	6081.6	178.7	141.3	433.6
4	4585.8	3915.2	3124.3	184.4	150.7	437.2
YEAR	4474.0	3811.6	3733.6	177.1	142.7	431.1
% change from '88	8.9	8.9	29.7	11.3	4.9	3.3
1990:1	4675.0	3975.9	3171.3	189.3	147.5	439.0
2	4705.5	3997.3	3190.1	192.6	150.1	442.6
3	4797.6	4076.0	3238.9	198.2	151.3	447.8
4	4889.1	4150.7	3280.2	201.9	153.8	453.1
YEAR	4766.8	4049.9	3220.1	195.5	150.7	445.6
% change from '39	6.5	6.3	-13.8	10.4	5.6	3.4

*Historical data. R = Revised. P = Preliminary.

1.70 MONEY AND CREDIT

See Table 17.0 - page 25

1988
FORECAST
DATA

Percent Change
from
September 1988
Forecast

+ 1.65%	Mortg. at savings inst°ns
+ 1.26%	Consumer & Demand Deposits
+ .96%	Large Denom. Time Deposits
+ .09%	Comm. & Indust. Loans at Banks
- .11%	Time Deposits
- .57%	Consumer Install. Credit

FORECAST OF MONEY SUPPLY, M1, SHOWS MODERATE GROWTH THROUGH THE REST OF THIS YEAR AND IN THE FOLLOWING TWO YEARS AS WELL.

Data indicate that Federal Reserve policy with regard to M1 will be more restrictive than with regard to other monetary aggregates, notably M2 and M3, and specifically certificates of deposits.

The fastest growth of credit aggregates is predicted for consumer credit, and, in the second half of the year, for residential mortgages.

TABLE 1.70
MONEY & CREDIT

Data for "Currency and demand deposits, M1", and "Time deposits, adjusted, M2" are averages of daily figures; other data are end of period figures.

INDICATOR	Currency and demand deposits M1, s.a.	Time deposit adjust. M2, s.a.	Cons. instal. credit n.s.a. **	Comm.& indus. loans at banks s.a.	Large denom. time dep. s.a.	Mortg. at all holders ** n.s.a.
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	bil. $
Year & Qtr.						
1987*	744.0	2861.9	613.0	540.1	485.4	2909.0 R
1988:1*	760.4	2946.3	629.5 R	545.2	492.4 R	2952.9 R
2*	772.3	3003.2	641.8 R	548.2 R	499.9 R	3024.1 R
3	783.5	3031.4	652.8	550.1	516.9	3061.6 R
4	786.4	3241.5	663.4	557.6	527.8	3093.5
YEAR	775.6	3055.6	663.4	557.6	527.8	3093.5
% change from '87	4.3	6.8	8.2	5.3	8.7	6.3
1989:1	780.2	3251.3	682.5	562.1	535.9	3124.7
2	803.1	3278.6	698.3	564.8	541.8	3202.4
3	814.3	3324.5	713.0	568.2	550.6	3286.0
4	820.7	3308.7	727.0	569.9	559.3	3318.2
YEAR	804.6	3290.8	727.0	569.9	559.3	3318.2
% change from '88	3.7	7.7	9.6	2.2	6.0	7.3
1990:1	825.6	3376.5	735.3	572.1	569.3	3407.4
2	833.9	3432.7	746.7	574.8	580.4	3468.5
3	840.7	3493.4	749.8	574.7	587.8	3539.5
4	846.7	3561.5	761.4	581.6	598.8	3598.4
YEAR	836.7	3466.0	761.4	581.6	598.8	3598.4
% change from '89	4.0	5.3	4.7	2.1	7.1	8.4

*Historical data. n.s.a: not seasonally adjusted.
s.a.: seasonally adjusted at annual rates.
R = Revised. P = Preliminary.

1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES

See Table 1.80 - page 27

THE ECONOMY IS SLOWING DOWN A BIT WHICH CERTAINLY MAKES THE FEDERAL RESERVE HAPPY-- NO UPWARD ADJUSTMENTS ARE FORECASTED TO TAKE PLACE FOR THE REST OF THIS YEAR.

It is anticipated that the Federal Reserve will take preventive steps against increases in the inflation rate by raising interest rates in the first half of next year.

These increases are assumed to be not too high and of a short duration. In the second half of 1989 the Fed's policy is anticipated to be less restrictive and small declines in rates are expected mid year. The largest declines are expected to be experienced by Treasury Bill, mortgage and consumer credit rates.

1988
FORECAST
DATA

Percent Change
from
September 1988
Forecast

+ .56%	Aaa Corp. Bond
+ .54%	20 Year Govt. Bond Yield
- .16%	Treas. Bills 2 mo. yield
- .43%	S & P's 500 Avg.
- 1.04%	Prime Rate
- 6.14%	Conv. Mortg. Rate

TABLE 1.80
INTEREST RATES, YIELDS & SECURITIES PRICES
Quarterly averages of monthly figures.

INDICATOR	Treas. bills 3 mo. yield	Prime rate	Conv. mortg rate	Aaa corp. bond rate	30 yr. Govt. bonds yield	S & P's 500 Avg 1941-43 = 10
Unit	%	%	%	%	%	
Year & Qtr.						
1987*	5.82	8.21	8.94	9.38	8.59	286.83
1988:1*	5.76	8.59	8.76	9.56	8.63	259.61
2*	6.23 R	8.78 R	8.75 R	9.68 R	9.06 R	263.13 R
3	6.81	9.64	9.19	10.24	9.03	274.08
4	6.92	10.00	9.68	10.30	8.95	278.23
YEAR	6.43	9.25	9.09	9.95	8.92	268.76
% change from '87	10.5	12.7	1.7	6.0	3.8	-6.3
1989:1	6.96	10.00	9.52	10.21	8.92	282.40
2	7.01	10.06	9.48	10.18	8.79	286.55
3	6.90	9.89	9.16	10.09	8.70	292.43
4	6.83	9.85	9.24	9.65	8.65	300.56
YEAR	6.92	9.95	9.35	10.03	8.77	290.49
% change from '88	7.7	7.5	2.8	.9	-1.7	8.1
1990:1	6.71	9.81	9.18	9.98	8.71	301.19
2	6.54	9.68	9.09	9.96	8.54	304.48
3	6.58	9.50	8.83	9.98	8.51	311.50
4	6.60	9.46	8.96	9.60	8.36	317.42
YEAR	6.61	9.61	9.02	9.88	8.53	308.65
% change from '89	-4.6	-3.4	-3.6	-1.5	-2.7	6.3

*Historical data. R = Revised. P = Preliminary.

2.0 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, comparisons of accuracy of Car Sales in 1987:4 has been selected. Actual number is in the Survey of Current Business (U. S. Dept. of Commerce, Washington, D.C. monthly) June 1988 issue, blue pages. Forecast data are in The Journal of Business Forecasting Methods & Systems, Vol. 5, No. 4, pp. 36-42, Winter 1986/87.

TABLE 2.0

COMPARISONS OF ACCURACY OF PREDICTIONS
Car sales, domestic and foreign
Actual figure: 10.1 mil units

Forecaster	Date of Forecast	Forecast	Accuracy %
AmeriTrust, Cleveland	12/86	10.5	+ 4.0
Fidelity Bank, Philadelphia	12/86	11.2	+10.9
First National Bank of Chicago, Chicago	12/86	11.1	+10.9
First Pennsylvania Bank, Philadelphia	12/86	10.6	+ 5.0
Irving Trust, New York	12/86	10.7	+ 5.9
LaSalle National Bank, Chicago	12/86	10.8	+10.7
KEDI, Inc., Kent	12/86	10.5	+ 4.0
Marine Midland Bank, New York	12/86	10.4	+ 3.0
Shawmut of Boston, Boston	12/86	11.2	+10.9
Valley National Bank, Arizona	12/86	11.2	+10.9
Metropolitan Life Ins. Co.	12/86	10.4	+10.3
Prudential	12/86	11.5	+13.9
National City Bank, Ohio	12/86	11.0	+ 8.9
Core Financial	12/86	10.4	+ 2.3
Morgan Guaranty	12/86	11.6	+14.9
E. F. Hutton	12/86	10.2	+ .1
Paine Webber	12/86	11.0	+ 8.9

3.00 HISTORICAL DATA SOURCES

For reader°s convenience listed below are sources of historical data series for the forecasts appearing in the Survey. The first column of the following table refers to the table in this Survey, the second column to the name of forecast series, and the third column identifies the source of historical data. The sources are: **Survey of Current Business** referred to as SCB (monthly, U. S. Department of Commerce, Washington, D.C.), **Federal Reserve Bulletin,** FRB, (Board of Governors of the Federal Reserve System, Washington, D.C. monthly), **Index of Industrial Production,** G.12.3 Release, IIP, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly.)

TABLE 3.00

HISTORICAL DATA SOURCES

Table Number	Data Series	Source
1.11 Selected Indicators of Real Growth I.	Gross national product, 1982 $	SCB, Table 1.2
	Index of industrial production	IIP, p. 2.
	Unemployment rate	SCB, Blue pages
	Capacity utilization rate	FRB, Table 2.11
	Private housing starts	SCB, Blue pages
	Car sales	SCB, Blue pages
1.12 Selected Indicators of Real Growth II.	Personal Cons. expend: Durables,	SCB, Table 1.1
	Nondurables	SCB, Table 1.1
	Services	SCB, Table 1.1
	Retail sales: Total	SCB, Blue pages
	Durables	SCB, Blue pages
	Nondurables	SCB, Blue pages
1.12 Real GNP	Gross national product, 1982 $	SCB, Table 1.2
	Personal consumpt. expenditures	SCB, Table 1.2
	Gross private dom. investment	SCB, Table 1.2
	Net exports	SCB, Table 1.2
	Federal purchases	SCB, Table 1.2
	State and local purchases	SCB, Table 1.2
1.21 Prices	Consumer price index	SCB, Blue pages
	Producer price index	SCB, Blue pages
	Implicit price deflators: GNP	SCB, Table 7.1
	Personal consumpt. expenditures	SCB, Table 7.1
	Federal purchases	SCB, Table 7.1
	State and local purchases	SCB, Table 7.1
1.22 Nominal GNP	Gross national product	SCB, Table 1.1
	Personal consumpt. expenditures	SCB, Table 1.1
	Gross private dom. investment	SCB, Table 1.1
	Net exports	SCB, Table 1.1
	Federal purchases	SCB, Table 1.1
	State and local purchases	SCB, Table 1.1

(Table 3.00 continues on the following page.)

TABLE 3.00

HISTORICAL DATA SOURCES (CONTINUED)

Table Number	Data Series	Source
1.30 Employment and Labor	Population	SCB, Blue pages
	Civilian labor force	SCB, Blue pages
	Employment	SCB, Blue pages
	Agriculture	SCB, Blue pages
	Non-agriculture	SCB, Blue pages
	Unemployment rate	SCB, Blue pages
1.41 Housing	Single-family housing starts	SCB, Blue pages
	Multifamily housing starts	SCB, Blue pages
	Mobile home shipments	SCB, Blue pages
	Permits authorized	SCB, Blue pages
	1-family unit price, new	FRB, Table 2.14
	1-family unit price, existing	FRB, Table 2.14
1.42 Autos	Passenger cars: Total sales	SCB, Blue pages
	Domestic	SCB, Blue pages
	Imported	SCB, Blue pages
	Dealers inventories	SCB, Blue pages
	Factory shipments	SCB, Blue pages
	Light-duty truck sales	SCB, Blue pages
1.50 Federal State & Local Budgets	Federal govt: Income taxes	SCB, Table 3.2
	Corporate profit tax accruals	SCB, Table 3.2
	Surplus/Deficit	SCB, Table 3.2
	State & local govt:Income taxes	SCG, Table 3.3
	Corporate profit tax accruals	SCG, Table 3.3
	Surplus/Deficit	SCB, Table 3.3
1.60 Income	Personal income	SCB, Table 2.1
	Personal disposable income	SCB, Table 2.1
	Compensation of employees	SCB, Table 1.11
	Corporate after tax profits	SCB, Table 1.11
	Personal saving	SCB, Table 2.1
	Average weekly earnings	SCB, Blue pages
1.70 Money and Credit	Currency and demand deposits, M1	FRB, Table 1.21
	Time deposits, adjusted, M2	FRB, Table 1.21
	Consumer installment credit	FRB, Table 1.55
	Commercial and industrial loans	FRB, Table 1.23
	Large denomination time deposits	FRB, Table 1.21
	Mortgages at S&L Associations	FRB, Table 1.54
1.80 Interest Rates, Yields, & Securities Prices	Treasury bills (3 mo) yield	FRB, Table 1.35
	Prime rate	FRB, Table 1.33
	Conventional mortgage rate	FRB, Table 1.53
	Aaa corporate bonds rate	FRB, Table 1.35
	20 years government bonds yield	FRB, Table 1.35
	Standard & Poor's 500 average	FRB, Table 1.36